PTO/SB/17 (12-04)
Approved for use through 07/31/2006. OMB 0651-0032
U.S. Patent and Trademark Office: U.S. DEPARTMENT OF COMMERCE
Under the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number.

Af
IZW

O I P E
JAN 1 3 2005
PATENT & TRADEMARK OFFICE

Effective on 12/08/2004.
Fees pursuant to the consolidated Appropriates Act. 2005 (H.R. 4818).

FEE TRANSMITTAL for FY 2005

☐ Applicant claims small entity status. See 37 CFR 1.27

TOTAL AMOUNT OF PAYMENT ($) 500.00

Complete If Known	
Application Number	09/639,478
Filing Date	August 15, 2000
First Named Inventor	Robert Carey
Examiner Name	Nicholas D. Rosen
Art Unit	3625
Attorney Docket No.	12672us01

METHOD OF PAYMENT (check all that apply)

☒ Check ☐ Credit Card ☐ Money Order ☐ None ☐ Other (please identify): ______

☒ Deposit Account Deposit Account Number: 13-0017 Deposit Account Name: McAndrews Held & Malloy

For the above-identified deposit account, the Director is hereby authorized to (check all that apply)

☐ Charge Fee(s) indicated below ☐ Charge Fee(s) indicated below, **except for the filing fee**

☒ Charge any additional fee(s) or underpayments of fees(s) under 37 CFR 1.16 and 1.17 ☐ Credit any overpayments

WARNING: Information on this form may become public. Credit card information should not be included on this form. Provide credit card information and authorization on PTO-2038.

FEE CALCULATION

1. BASIC FILING, SEARCH, AND EXAMINATION FEES

	FILING FEES		SEARCH FEES		EXAMINATION FEES		
Application Type	**Fee ($)**	**Small Entity Fee($)**	**Fee($)**	**Small Entity Fee($)**	**Fee($)**	**Small Entity Fee($)**	**Fees Paid($)**
Utility	300	150	500	250	200	100	
Design	200	100	100	50	130	65	
Plant	200	100	300	150	160	80	
Reissue	300	150	500	250	600	300	
Provisional	200	100	0	0	0	0	

2. EXCESS CLAIM FEES

Fee Description	**Fee($)**	**Small Entity Fee($)**
Each claim over 20, or for Reissues, each claim over 20 and more than in the original patent	50	25
Each independent claim over 3 or, for Reissues, each independent claim more than in the original patent	200	100
Multiple dependent claims	360	180

Total Claims ______ -20 or HP **Extra Claims** ______ x **Fee($)** ______ = **Fee Paid ($)** ______

HP = highest number of total claims paid for, if greater than 20

Multiple Dependent Claims **Fee** ______ **Fee Paid ($)** ______

Indep. Claims ______ -3 or HP **Extra Claims** ______ x **Fee($)** ______ = **Fee Paid ($)** ______

HP = highest number of independent claims paid for, if greater than 3

3. APPLICATION SIZE FEE

If the specification and drawings exceed 100 sheets of paper, the application size fee due is $250 ($125 for small entity) for each additional 50 sheets or fraction thereof. See 35 U.S.C. 41(a)(1)(G) and 37 CFR 1.16(s).

Total Sheets ______ -100 **Extra Sheets** ______ /50 **Number of each additional 50 or fraction thereof** ______ (round up to a whole number) x **Fee($)** ______ = **Fee Paid($)** ______

4. OTHER FEE(S) **Fee Paid($)**

Non-English Specification, $130 fee (no small entity discount) ______

Other: Appeal Brief $500.00

SUBMITTED BY

Signature	George Wheeler	Registration No. (Attorney/Agent)	28,766	Telephone	(312)775-8000
Name (print/type)	George Wheeler			Date	01-10-2005

Docket No. 12672US01

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In the Application of:

ROBERT CAREY

Serial No.: 09/639,478

Filed: August 15, 2000

For: TECHNIQUES OF SELECTING SECURITIES FOR A PORTFOLIO USING BUYBACK RATIO AND DIVIDEND YIELD

Examiner: Nicholas D. Rosen

Group Art Unit: 3625

Confirmation No.: 9992

CERTIFICATE OF MAILING

I hereby certify that this correspondence is being deposited with the United States Postal Service as first class mail, in an envelope addressed to: Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450, on January 10, 2005.

By: George F. Wheeler
George F. Wheeler
Reg. No. 28,766
Attorney for Applicant

BRIEF ON APPEAL

Mail Stop Appeal Brief – Patents
Commissioner for Patents
P.O. Box 1450
Alexandria, Virginia 22313-1450

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

STATUTES

OTHER AUTHORITIES

I. SUMMARY OF THE ARGUMENT AND REQUESTED RELIEF

The Applicant in this application respectfully submits that the final rejections of claims 1, 2, 4-16 and 18-20[1] for obviousness fail to establish a *prima facie* case of obviousness because the cited references in the final Office action even when combined together do not teach or suggest all the claim limitations of the pending claims and the Examiner employed prohibited hindsight to modify the references or to combine the reference teachings when reaching the final rejections.

The beauty of the United States patent system is that it enables an inventor to discover something so simple, yet undiscovered, that once the idea is disclosed it becomes obvious to everyone who hears the idea. The difficulty is that once the idea is known, sometimes it is hard to understand that the invention was not obvious before it was invented.

The present application involves a method and an apparatus for selecting securities from a group of available securities for an investment portfolio. The method and apparatus involve ranking available securities according to predetermined criteria comprising the magnitude of the sum of two performance factors, dividend yields and buyback ratios, of the available securities and then selecting securities based on the ranking. None of the references cited in the final Office action, either alone or combined with other references, teaches or suggests to utilize a predetermined relationship between the dividend yields and the buyback ratios of securities as criteria to select securities, much less to utilize the magnitude of the sum of the dividend yields and the buyback ratios. Neither does the prior art of record provide a suggestion or motivation to modify the references or to combine the references in the manner suggested by the Examiner. The Examiner first used the claimed invention as a template to pick and choose isolated disclosures, and then used the claimed invention, but not the prior art, as a roadmap to reconstruct the claimed invention.

The Applicant, therefore, respectfully requests that the Board reverse the June 10, 2004, final rejections for obviousness of claims 1, 2, 4-16 and 18-20, and issue a Notice of Allowance for these claims.

[1] Appendix Ex. A, Claims Involved In The Appeal

II. REAL PARTIES IN INTEREST

The real party in interest is First Trust Portfolios, L.P. (Lisle, Illinois), formerly known as Nike Securities, L.P. (Lisle, Illinois), the assignee of the present patent application.

The sole inventor of the present patent application is Robert Franklin Carey, who made the invention as an employee of First Trust Portfolios, L.P.

III. RELATED APPEALS, INTERFERENCES, AND LITIGATION

There are no other appeals, interferences, and litigation related to the present appeal.

IV. STATUS OF CLAIMS

Claims 1, 2, 4-16, 18-20 are pending and presently stand rejected. Claims 3, 17 and 21 have been cancelled. The claims on appeal (claims 1, 2, 4-16, 18-20) are reproduced in the Appendix at Exhibit A.

V. STATUS OF AMENDMENTS

Claim 21 was cancelled in the paper filed on August 9, 2004, in response to the final Office action of June 10, 2004. The Advisory action mailed September 9, 2004, states that this cancellation will be entered for purposes of Appeal. Therefore, all claim amendments have been entered.

VI. SUMMARY OF CLAIMED SUBJECT MATTER

The present invention involves techniques enabling selection of securities from a group of securities based upon criteria including dividend yields and buyback ratios for an investment portfolio.[2] There are two groups of claims in the present application with claims 1 and 15 as the independent claims of the two groups, respectively.

Each of claims 1, 2, 4-14 defines a method or depends from a method that collects dividend yields and buyback ratios of a group of available securities; ranks at least some of the available securities according to predetermined criteria comprising the magnitude of the <u>sum</u> of dividend yields and buyback ratios of the available securities; and then selects securities based

[2] *See*, e.g., Appendix Ex. B, Specification of U.S. Ser. No. 09/639,478 as filed on August 15, 2000 ("Specification"), page 4, lines 8-9.

on the ranking to form a group of selected securities for an investment portfolio.[3] Claim 1 is the independent claim of this group, and reads (emphases added):

> 1. A method for selecting securities from a group of available securities for an investment portfolio, the method comprising:
>
> collecting the dividend yields and buyback ratios of said group of available securities;
>
> ranking at least some of the available securities according to predetermined criteria comprising a predetermined relationship between said collected dividend yields and said collected buyback ratios to form a group of ranked securities, <u>the predetermined relationship comprising the magnitude of the sum of said collected dividend yields and said collected buyback ratios</u>; and
>
> selecting at least some of the ranked securities <u>having the highest magnitude of the sum of said collected dividend yields and said collected buyback ratios</u> to form a group of selected securities.[4]

Claims 2 and 4-13 are all method claims further defining the method of claim 1.[5] Claim 14 also depends from claim 1, and defines a computer-readable medium bearing a computer program that can enable a computer to perform the method of claim 1.[6]

Each of claims 15, 16 and 18-20 defines an apparatus that can store dividend yields and buyback ratios of a group of available securities and rank at least some of the available securities according to predetermined criteria comprising the magnitude of the <u>sum</u> of dividend yields and buyback ratios of the available securities to generate a group of ranked securities.[7] Claim 15 is the independent claim of this group, and reads (emphases added):

> 15. Apparatus for selecting securities from a group of available securities having dividend yields and buyback ratios for an investment portfolio, the apparatus comprising:
>
> a memory storing the dividend yields and buyback ratios of said group of available securities;
>
> a processor programmed to rank at least some of the available securities according to predetermined criteria comprising a predetermined relationship

---

[3] *See*, e.g., Appendix Ex. B, Specification, page 5; page 6, lines 5-7; and Figure 1.

[4] *See*, e.g., Appendix Ex. B, Specification, page 5, lines 1-17; page 6, lines 5-7; Figure 1; and page 10, claims 1 and 3.

[5] *See*, e.g., Appendix Ex. B, Specification, page 5; page 6, lines 5-7 and lines 19-22; page 7, lines 1-7 and 13-16, and Figure 1.

[6] *See*, e.g., Appendix Ex. B, Specification, page 6, lines 15-18.

[7] *See*, e.g., Appendix Ex. B, Specification, page 5; page 6, lines 1-18; and Figures 1 and 2.

between said collected dividend yields and said collected buyback ratios to generate a group of ranked securities, <u>the predetermined relationship comprising the magnitude of the sum of said collected dividend yields and said collected buyback ratios</u>; and

an output unit indicating in human readable form at least some of said <u>ranked securities having the highest magnitude of the sum of said dividend yields and said buyback ratios</u>.[8]

Claims 16 and 17-20 further define the apparatus of claim 15 by adding more limitations.

Therefore, it is clear that each claim of the present application requires that available stocks be ranked and selected according to the magnitude of <u>the sum</u> of each stock's dividend yield and buyback ratio.[9] This criterion is novel and inventive not only because it uses both the dividend yield and buyback ratio of a stock to evaluate the stock, but also because it creatively adds up two totally uncorrelated numbers showing different performance aspects of the stock in a very simple way and uses <u>the sum</u> of them in the predetermined criteria.

VII. GROUNDS OF REJECTION TO BE REVIEWED ON APPEAL

The fundamental issue in this appeal is whether the inventions claimed in the present application are non-obvious in view of the applied prior art under 35 U.S.C. § 103.

The final Office action has rejected independent claims 1 and 15 under 35 U.S.C. 103(a) as being unpatentable over Fried (U.S. Patent No. 6,035,286, attached in Appendix as Exhibit C) in view of the article, "Dow Dogs Will Have Their Day, Fans Say Critics Call Strategy Overused, Outdated Dogs of 1997 Lost Their Bite" (hereinafter "Dow Dogs," attached in Appendix as Exhibit D). All other currently pending claims are rejected as being unpatentable over Fried in view of Dow Dogs alone or further in view of one or more other cited references or further in view of office notice. The Applicant respectfully traverses these rejections and submits to the Board that the combined teachings of Fried and Dow Dogs cannot render the inventions of claims 1 and 15 obviousness. Two sub-issues bearing on the ultimate question of non-obviousness are identified below.

---

[8] *See*, e.g., Appendix Ex. B, Specification, page 5; page 6, lines 1-18; Figures 1 and 2, and claims 15 and 17.

[9] *See*, e.g., Appendix Ex. B, Specification, page 5, lines 11-12.

- **Does the final Office action fail to make out a *prima facie* case of obviousness?**

  The Applicant respectfully submits that the answer to this question is yes.

- **Is the final Office action improperly based on hindsight reconstruction of the Fried reference, using the present invention as a template?**

  The Applicant respectfully submits that the answer to this question is yes.

VIII. GROUPING OF CLAIMS

Claims 1, 2, 4-16 and 18-20 stand or fall together respecting the obviousness rejection.

IX. ARGUMENT

The final rejections contain two fundamental errors, summarized in Section VII above, leading to factually and legally incorrect determinations. These errors caused patentable claims 1, 2, 4-16 and 18-20 of the present application to be rejected under 35 U.S.C. § 103. These errors are addressed in detail below. The final rejections should be reversed, and claims 1, 2, 4-16 and 18-20 should be declared to be patentable.

A. The Examiner Has Not Made Out A *Prima Facie* Case Of Unpatentability

"The examiner bears the initial burden of factually supporting any *prima facie* conclusion of obviousness." *MANUAL OF PATENT EXAMINING PROCEDURE* ("*M.P.E.P.*"), § 2142 at page 128 (8th Ed. Rev. 2, May 2004). The failure to establish a *prima facie* case is fatal to a rejection. Unless and until a *prima facie* case is made out, the Applicant has no obligation to provide rebuttal argument or evidence of patentability. *In re Deuel*, 51 F.3d 1552, 1557, 34 USPQ2d 1210, 1214 (Fed. Cir. 1995) ("The examiner bears the burden of establishing a *prima facie* case of obviousness. Only if this burden is met does the burden of coming forward with rebuttal argument or evidence shift to the applicant"); *In re Rijckaert*, 9 F.3d 1531, 1532, 28 USPQ2d 1955, 1956 (Fed. Cir. 1993). The Board of Patent Appeals and Interferences (hereinafter "the Board") also noted that:

> The Supreme Court in *Graham v. John Deere Co.*, 383 U.S. 1, 148 U.S.P.Q. 459 (1966), focused on the procedural and evidentiary processes in reaching a conclusion under section 103. As adapted to *ex parte* procedure, *Graham* is interpreted as continuing to place the "burden of proof on the Patent Office which requires it to produce the factual basis for its rejection of an application under

> sections 102 and 103". [Citation omitted.] After a *prima facie* case of obviousness has been established, the burden of going forward shifts to the applicant.

In re Levengood, 28 USPQ2d 1300, 1301, n.1, 1993 Pat. App. LEXIS 10, at *5 (Bd. Pat. App. & Interf. 1993). The Examiner in the present application has failed to establish a *prima facie* case of obviousness.

There are "three basic criteria" for "a *prima facie* case of obviousness."

> To establish a prima facie case of obviousness, three basic criteria must be met. First, there must be some suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference teachings. Second, there must be a reasonable expectation of success. Finally, the prior art reference (or references when combined) must teach or suggest all the claim limitations. The teaching or suggestion to make the claimed combination and the reasonable expectation of success must both be found in the prior art, and not based on applicant's disclosure.

M.P.E.P., §2142 at page 128; *see In re Vaeck*, 947 F.2d 488, 20 USPQ2d 1438 (Fed. Cir. 1991). In view of this standard, at least three fundamental errors infect the June 10, 2004, final rejections for obviousness.

First, the Fried reference, alone or combined with the other references, does not teach or suggest at least the claim limitations related to the magnitude of the sum of collected dividend yields and collected buyback ratios of securities.[10]

Second, the final Office action fails to properly show that there is some suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference teachings in the manner suggested by the Examiner. The final Office action improperly fails to consider the cited prior art as a whole, including portions in the Fried reference "that would lead away from the claimed invention." *M.P.E.P.*, §2141.02 at page 127; *see also*, *In re Dow Chemical Co.*, 837 F.2d 469, 473, 5 USPQ2d 1529, 1532 (Fed. Cir. 1988) (considering the prior art as a whole). The final Office action also fails to consider the fact that "the proposed modification or combination of the

---

[10] *See* Appendix Ex. A, claims 1 and 15; *also see*, e.g., Appendix Ex. B, at page 5, lines 10-12; at page 10, claim 3; at page 12, claim 17; and Figure 1.

prior art would change the principle of operation of the prior art invention [of the Fried reference] being modified." *M.P.E.P.*, § 2143.01 at page 132.

Third, the Examiner has failed to show that a reasonable expectation of success of the present invention can be found in the prior art.

The following sections of the brief provide more detail respecting these errors. Any one of these errors is reversible error, which, if corrected, makes all of the present claims patentable in view of the prior art of record.

1. The Applied Prior Art Fails To Show The Recited Elements Of The Claimed Invention Related To The Magnitude Of The Sum Of Collected Dividend Yields And Collected Buyback Ratios

The final Office action violates the last of the three basic legal criteria set out above for establishing a *prima facie* case, which is: "[T]he prior art reference (or references when combined) must teach or suggest **all** the claim limitations." *M.P.E.P.* § 2142, at page 128 (emphasis added). Specifically, the Examiner ignored that the Fried reference does not disclose the elements of every claim of the present application concerning the magnitude of the sum of the collected dividend yields and the collected buyback ratios.[11] No other applied prior art fills this gap.

The Fried reference discloses a computerized method and system for creating a stock investment report based on a buyback investment strategy.[12] The method of the Fried reference uses two consecutive selection criteria consisting of a buyback ratio (first) and then either a price/sales ratio or a price/earnings ratio (second).[13] The screening step of the Fried method employs a seriatim process which "first, identif[ies] a buyback subset within the selection of stocks," and then "[a]fter determining the buyback subset, [] identifies those companies in the buyback subset with the lowest price/sales or lowest price/earnings ratio."[14] And then the Fried method ranks the screened stocks from lowest to highest price/sales ratio or lowest to highest

[11] *See* Appendix Ex. A, claims 1 and 15; *also see*, e.g., Appendix Ex. B, at page 5, lines 10-12; at page 10, claim 3; at page 12, claim 17; and Figure 1.

[12] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 1: lines 8-11.

[13] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 12-29.

[14] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 4: lines 6-7 and 36-37.

price/earnings ratio.[15] The purpose of the method and system of the Fried reference is to "determine those companies with the highest stock buyback percentage and lowest price/sales [or price/earnings] ratio."[16]

The final Office action admits that the Fried reference "does not expressly disclose ranking the securities according to the magnitude of the sum of collected dividend yields and collected buyback ratios."[17] In fact, the Fried reference does not teach or suggest to use the magnitude of the sum of any two criteria to screen or rank securities. The Fried reference teaches a method of use in seriatim of a buyback ratio followed by a price/sales ratio or a price/earnings ratio, as the selection criteria to screen or rank securities. However, in each of the screening or ranking steps (or substeps), the method of the Fried reference only uses either the buyback ratio or the price/sales or price/earnings ratio of a stock in the screening and selection criteria.[18] Nowhere does the Fried reference teach or suggest that the buyback ratio can be simply added to the price/sales or price/earnings ratio to give a sum (or be calculated in another manner to give a consolidated number), which can then be used in the selection criteria.

The Dow Dogs reference is a news article commenting on the performance of the "Dow dogs" strategy that ranks securities by dividend yield in the year of 1997.[19] It states, when analyzing the possible factors undermining the "Dow dogs" strategy, "Dividends have plummeted as the bull market progressed. Corporate managers, stressing growth ahead of income, are more likely to spend cash generated by their businesses on expanding, or buying back stock."[20] This is the only time, in the whole article, that the Dow Dogs reference mentions companies' buying back activities. The Dow Dogs reference does not teach or suggest that the magnitude of the sum of dividend yields and buyback ratios can be used as a criterion for selecting securities. In fact, the Dow Dogs reference does not teach or suggest that the buyback

[15] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 26-29 and col. 4: lines 45-51.

[16] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 5-7.

[17] Appendix Ex. E, Final Office Action of June 10, 2004 at page 3.

[18] *See, e.g.*, Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 12-29, at col. 4: lines 6-7 and 36-37, and at claim 1.

[19] Appendix Ex. D, Dow Dogs at pages 1-3.

[20] Appendix Ex. D, Dow Dogs at page 2, ¶ 18.

ratio of a stock can be used or be combined with the dividend yield of the stock in any manner to rank or choose stocks. The observation that corporations spend cash on buying back stock instead of paying out dividends (or investing in research and development, expanding, or otherwise) does not teach or suggest a buyback ratio concept, much less a predetermined relationship between dividend yields and buyback ratios that can be used to screen or rank securities. Furthermore, the Dow Dogs reference does not teach or suggest that the dividend yield and any other characteristic number of a stock can be simply added up to give a sum, which can then be used for selecting securities.

None of the other prior art of record indicates that the magnitude of the sum of dividend yields and buyback ratios of available securities (or the sum of dividend yields or buyback ratios and any other kind of performance data of available securities) can be used in the criteria for selecting securities.

To address this glaring absence of any applied prior art specifically disclosing the use of the magnitude of the sum of dividend yields and buyback ratios, the Examiner holds the opinion that the sum of dividend yield and buyback ratio of a stock is a direct measure of paid-out earnings of that stock. The Examiner, however, has provided no reference teaching or suggesting that the sum of the dividend yield and the buyback ratio is a direct measure of paid-out earnings. Nor has the Examiner provided a reference indicating that paid-out earnings is useful for selecting securities. Instead, the Examiner has "pushed" the proposed disclosure of the Fried and Dow Dogs references well beyond what the references actually disclose or suggest—as it will be further discussed below—by using the teaching of the present application and hindsight.

In short, there is simply no evidence in the prior art of record that the magnitude of the sum of dividend yields and buyback ratios of available securities is useful for selecting securities. The Examiner has not shown the claim limitations concerning the sum of dividend yields and buyback ratios in the prior art, so the rejections of the claims must fail.

2. The Final Office Action Fails To Show Some Suggestion Or Motivation To Modify The Fried Reference To Use Criteria Comprising The Magnitude Of The Sum Of Collected Dividend Yields And Collected Buyback Ratios To Rank And Select Securities

The final Office action violates the first requirement of a *prima facie* case of obviousness: a "suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference teachings." *M.P.E.P.*, § 2142 at page 128; *see also Crown Operation Int'l., Ltd. v. Solutia, Inc.*, 289 F.3d 1367, 1376, 62 USPQ2d 1917, 1822 (Fed. Cir. 2002) (To establish obviousness, "[t]here must be a teaching or suggestion within the prior art, within the nature of the problem to be solved, or within the general knowledge of a person of ordinary skill in the field of the invention, to look to particular sources, to select particular elements, and to combine them as combined by the inventor."); *In re Fritch*, 972 F.2d 1260, 1265, 23 USPQ2d 1780, 1783 (Fed. Cir. 1992) (the Examiner can satisfy the burden of showing obviousness of the combination "only by showing some objective teaching in the prior art or that knowledge generally available to one of ordinary skill in the art would lead that individual to combine the relevant teachings of the references"). The final Office action fails to properly show a suggestion or motivation in the prior art to use the magnitude of the sum of dividend yields and buyback ratios for ranking securities and then select those securities having the highest magnitude of the sum of the dividend yields and buyback ratios. Moreover, the final Office action does not only fail to consider the cited prior art as a whole, including portions in the Fried reference "that would lead away from the claimed invention," *M.P.E.P.*, §2141.02 at page 127, but also fails to consider the fact that "the proposed modification or combination of the prior art would change the principle of operation of the prior art invention being modified." *M.P.E.P.*, § 2143.01 at page 132.

In the final Office action, the Examiner states, "it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to have the predetermined criteria comprise ...the magnitude of the sum of collected dividend yields and collected buyback ratios, for the obvious advantage of having the predetermined criteria reflect the ratios of paid-out earnings to stock prices of the corporations in question."[21] However, the examiner did not

[21] Appendix Ex. E, Final Office Action of June 10, 2004 at page 3.

explain and failed to cite any reference explaining how the sum of the dividend yield and the buyback ratio of a stock reflects the ratio of paid-out earnings to stock prices. Obviously, shares of stocks can be repurchased by monies other than paid-out earnings, and earnings can be spent for other purposes such as research and development and business expanding. The Applicant's argument that there was no suggestion or motivation in the cited prior art to use the magnitude of the sum of dividend yields and buy back ratios of available stocks as claimed, was criticized by the Examiner that it would be "a stretch to say that nothing in the cited references provides any incentive or motive to use a sum."[22] To support his position, the Examiner continued:

> Fried discloses using buyback ratio to select a subset of stocks, and then using price/earnings ratio (or other criteria) to choose stocks for a portfolio, while "Dow Dogs" not only teaches using dividend yield to select a set of stocks for a portfolio, but further teaches that corporate managers these days are more likely to spend cash on buying back stock than on paying substantial dividends. This is held to qualify as motivation to take buyback ratio as well as dividend yield into account, and the sum of buyback ratio and dividend yield is the measure of paid-out earnings. Fried, of course, also teaches that buying stocks with high buyback ratios is likely to be advantageous, as such stocks are reported to outperform the market (column 1). * * * While it would certainly be possible to use some other predetermined relationship between dividend yield and buyback ratio, the sum of the two not only has the charm of simplicity, but is a direct measure of paid-out earnings.[23]

The Applicant respectfully traverses this statement, because the Examiner tried but failed to show that there was any motivation or suggestion in the prior art, and not from the Applicant's disclosure, to use the sum of the dividend yield and buyback ratio of a stock as claimed in the present application. The Examiner relied on paid-out earnings as the key to motivation, but the Examiner even did not cite any prior art using the term "paid-out earnings" or teaching or suggesting the meaning of the term. Even if there were such a concept of "paid-out earnings," there is no known teaching or suggestion in Fried or Dow Dogs or any other cited prior art that the sum of the dividend yield and buyback ratio of a stock is "a direct measure of paid-out earnings"[24] or "reflect[s] the ratios of paid-out earnings to stock prices"[25] of the stock and the

[22] Appendix Ex. E, Final Office Action of June 10, 2004 at page 10.

[23] Appendix Ex. E, Final Office Action of June 10, 2004 at pages 10-11.

[24] Appendix Ex. E, Final Office Action of June 10, 2004 at page 11.

[25] Appendix Ex. E, Final Office Action of June 10, 2004 at page 3.

Examiner has not cited any reference that teaches or suggests or supplies any motivation to use paid-out earnings to select securities. The Dow Dogs reference actually explicitly teaches that besides paying dividends or buying back stock, corporate managers also spend cash generated on expanding businesses.[26] And it is evidently clear to a person of ordinary skill in the art of finance that earnings can be spent for many other purposes (e.g., research and development) as well. Therefore, even if there were such a concept of "paid-out earnings," it was not only a stretch but a blatant speculation for the Examiner to say that the sum of the buyback ratio and the dividend yield "is a direct measure of paid-out earnings" and that a person of ordinary skill in the art would have been motivated to use the sum of the two in the criteria for selecting securities for an investment portfolio.[27]

Furthermore, dividend yields and buyback ratios are two totally uncorrelated criteria showing different performance aspects of stocks. A dividend yield is an indication of the income generated by a share of stock, and is calculated by dividing a stock's annual dividend payments per share by its share price.[28, 29] A buyback ratio reflects a company's buying back activities which is to reduce the company's outstanding shares through a share buyback program.[30] Buyback ratios can be calculated in different accepted ways. For example, the present application provides one exemplary method to calculate buyback ratios: "Buyback ratio is determined by subtracting one from the ratio of a company's shares of common stock outstanding 12 months prior to the initial date of deposit divided by a company's shares of common stock outstanding as of the business day prior to the initial date of deposit."[31] The Fried reference teaches that buyback criteria can be based on the percentage of outstanding stocks

---

[26] Appendix Ex. D, Dow Dogs at page 2, ¶ 18.

[27] See, Appendix Ex. E, Final Office Action of June 10, 2004 at pages 10-11.

[28] Appendix Ex. F, Dividend Yield from http://www.investopedia.com/terms/d/dividendyield.asp; see also, Appendix Ex. G, Tax Changes May Dog "Beating The Dow" Strategy, which was relied on by the final Office action for rejecting claim 5.

[29] The Dow Dogs reference provides that dividend yield is "calculated by dividing the price by the dividend." Appendix Ex. D, Dow Dogs at page 1, ¶ 9. This is opposite to the ordinary meaning of the term.

[30] Appendix Ex. B, Specification, page 4, lines 14-18.

[31] Appendix Ex. B, Specification, page 4, lines 18-21.

repurchased during a given period that cause a decrease in the number of shares outstanding.[32] No matter how a buyback ratio is calculated, it reflects the change of the number of outstanding shares of a stock, while a dividend yield reflects the income generated by a share of the stock. The Examiner has failed to show that there was any suggestion or motivation in the prior art to simply add up these two different numbers together and use the sum of them for ranking and selecting securities.

Moreover, the Fried or Dow Dogs reference or any other cited prior art does not even give some suggestion or motivation to use the sum of any two (or more) kinds of performance data of securities including dividend yields, buyback ratios, price/earnings ratios, price/sales ratios, and other criteria. Actually, if the Examiner had read the cited prior art as a whole and refrained from using the disclosure of the present application and impermissible hindsight, the Examiner would have found that one of ordinary skill in the art of finance at the time of the Applicant's invention would have not been motivated to combine Fried with Dow Dogs in the manner suggested by the Examiner.

"A prior art reference must be considered in its entirety, i.e., as a whole, including portions that would lead away from the claimed invention." *M.P.E.P.*, § 2141.02 at page 127 (emphasis original) (*citing W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1553, 220 USPQ 303, 313 (Fed. Cir. 1983). Had the Examiner properly considered the Fried reference as a whole, the Examiner would have withdrawn the obviousness rejections of currently pending claims (1, 2, 4-16 and 18-20). The final Office action errs in at least two instances by failing to consider the cited prior art as a whole.

First, the Fried reference teaches away from adding up the buyback ratio and another performance number of a stock and then use the sum in predetermined criteria for selecting stocks. The Fried reference teaches to use both the buyback ratio and price/sales ratio or price/earnings ratio of a company's stock in the selection criteria.[33] However, it clearly teaches that the two kinds of ratios are used separately in different screening or ranking steps (or substeps) in seriatim.[34] The examiner admits, "Fried discloses using buyback ratio to select a

---

[32] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 4: lines 7-14 and 18-22; and at claim 1.

[33] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 3: lines 47-49.

[34] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 4: lines 6-7 and 36-37.

subset of stocks, and then using price/earnings ratio (or other criteria) to choose stocks for a portfolio."[35] A person of ordinary skill in the art reading the Fried reference would understand that the predetermined buyback criteria shall be used by itself to identify a buyback subset before the second predetermined criteria only related to price/sales or price/earnings ratios can be used to screen and rank securities in the buyback subset. The objective of the Fried reference is to first determine those companies with the highest stock buyback percentages among all available securities and then determine from those companies which of those companies have the lowest price/sales or price/earnings ratios (i.e., the highest sales/price or earnings/price ratios).[36] A person of ordinary skill in the art reading the Fried reference would have been led away from using a predetermined relationship between the price/sales or price/earnings ratios (or sales/price or earnings/price ratios for this purpose) and buyback ratios.

Second, the Fried reference teaches that the selection criteria of its invention which consist of a company's buyback ratio and either the price/sales ratio or the price/earnings ratio "has [sic] been empirically proven to outperform other selection criteria over the same time period."[37] A person of ordinary skill in the art reading this teaching would have been led away from substitute another criteria of a stock (e.g., the dividend yield) for the price/sales ratio or price/earnings ratio in the selection criteria, because that will undesirably undermine the performance of the investment portfolio selected.

Moreover, when evaluating whether there is suggestion or motivation to modify the Fried reference as suggested by the Examiner, one must take into account whether the proposed modification will change the principle of operation of the Fried reference. "If the proposed modification or combination of the prior art would change the principle of operation of the prior art invention being modified, then the teachings of the references are not sufficient to render the claims *prima facie* obvious." *M.P.E.P.* § 2143.01 at page 132. As discussed above, the principle of operation of the Fried reference is to first use buyback criteria alone to select a subset of securities consisting of those companies with the highest stock buyback percentages among all

[35] Appendix Ex. E, Final Office Action of June 10, 2004 at page 10 (emphasis added).

[36] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 1: lines 61-64, at col. 2: lines 3-7; and at col. 4: lines 5-7 and lines 35-38.

[37] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 3: lines 47-49 and 59-61.

available securities and then use another criteria to determine those companies with the lowest price/sales or price/earnings ratios (i.e., the highest sales/price or earnings/price ratios) among the subset of securities with the highest stock buyback percentages.[38] If, for example, the sum of the earnings/price ratios and buyback ratios is used in the selection criteria, the principle of operation of the method of the Fried reference (a two- or multi-step operation in seriatim) would have been totally changed and the group of securities selected would have been different. For example, a stock having a very low or zero buyback ratio but very high earnings/price ratio, i.e., very low price/earnings ratio, would have not been selected by the method of the Fried reference, but might have been selected by this modified method. Therefore, the teaching of the Fried reference in view of the Dow Dogs reference is not sufficient to render the claims of the present application *prima facie* obvious as suggested by the Examiner. *See*, *M.P.E.P.*, § 2143.01 at page 132.

As it will be discussed further below, the motivation or suggestion to modify the Fried reference in the manner suggested by the Examiner cannot fairly be gleaned from the prior art, but instead is from the teaching of the present application and based on impermissible hindsight. And therefore, no prima facie case of obviousness has been established by the Examiner. *Dow Chemical*, 837 F.2d at 473, 5 USPQ2d at 1532.

3. The Final Office Action Fails To Show There Is Any Reasonable Expectation Of Success In The Cited Prior Art To Use Criteria Comprising The Magnitude Of The Sum Of Dividend Yields And Buyback Ratios To Rank And Select Securities

In order to reject claims as *prima facie* obviousness, there must be a reasonable expectation of success in the prior art to modify the Fried reference in view of the Dow Dogs reference in the manner suggested by the Examiner. *M.P.E.P.*, § 2142 at page 128. The final Office action has failed to meet this criterion.

As discussed above, the dividend yield and buyback ratio of a stock are two totally uncorrelated numbers showing different performance aspects of the stock. No matter how the buyback ratio is calculated, it reflects the change of the number of outstanding shares of the stock, while the dividend yield reflects the income generated by a share of the stock. There is

[38] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 3-7; at col. 4: lines 5-14 and lines 35-38.

nothing in the prior art cited by the Examiner suggesting that the sum of the dividend yield and the buyback ratio would be useful and meaningful at all for selecting securities and that the investment portfolio containing the securities so selected would succeed.

B. The Final Office Action Is Improperly Based On Hindsight Reconstruction Of The Fried Reference, Using The Present Invention As A Template

The final Office action is improperly based on an extensive hindsight reconstruction of the Fried reference, using the present invention as a template. The Examiner has improperly proposed many modifications to the Fried reference to get a combination of elements as claimed by the present invention.[39] But the proposed modifications are not taught or suggested, expressly or inherently, by Fried or any other applied prior art reference. Therefore, another error in the final Office action that led to the wrong result was the application of prohibited hindsight.

> To imbue one of ordinary skill in the art with knowledge of the invention in suit, when no prior art reference or references of record convey or suggest that knowledge, is to fall victim to the insidious effect of a hindsight syndrome wherein that which only the inventor taught is used against its teacher.

W.L. Gore & Associates, Inc. v. Garlock, Inc., 721 F.2d 1540, 1553, 220 USPQ 303, 313 (Fed. Cir. 1983); *see Bausch and Lomb, Inc. v. Barnes-Hind*, 796 F.2d 443, 448, 230 USPQ 416, 420 (Fed. Cir. 1986) (explaining that the district court erred by an "improperly viewed and isolated line" in a prior art reference in light of the teaching of the patent); *In re Leonor*, 395 F.2d 801, 803, 158 USPQ 20, 23 (C.C.P.A. 1968) ("[a]dmittedly, the Othmer affidavit and appellant's specification provide a ready guide for selecting and combining parts of the prior art processes. If, however, the prior art is considered *without* the Othmer affidavit and *without* appellant's teachings, no fact basis is established in the present record from which to support the legal conclusion[...of obviousness]").

A critical step in analyzing the patentability of claims pursuant to 35 U.S.C. § 103(a) is casting the mind back to the time of invention, to properly consider the thinking of one of ordinary skill in the art, guided only by the prior art references and the then-accepted wisdom in the field. *In re Kotzab*, 217 F.3d 1365, 1369, 55 USPQ2d 1313, 1316 (Fed. Cir. 2000); *see also In re Dembiczak*, 175 F.3d 994, 999, 50 USPQ2d 1614, 1617 (Fed. Cir. 1999).

---

[39] Appendix Ex. E, Final Office Action of June 10, 2004, at pages 3, 4 and 9-11.

The final Office action repeatedly uses the specification or claims of the present application as a template, instead of only using disclosures in the prior art including the Dow Dogs or other cited prior art references, to retroactively improve upon the disclosure of the Fried reference. *See, e.g., In re Fritch*, 972 F.2d 1260, 1266, 23 USPQ2d 1780, 1783 (Fed. Cir. 1992) (explaining that it is impermissible to use the claimed invention as an instruction manual or "template" in attempting to piece together isolated disclosures and teachings of the prior art so that the claimed invention appears obvious); *Grain Processing Corp. v. American Maize-Products Co.*, 840 F.2d 902, 907, 5 USPQ2d 1788, 1792 (Fed. Cir. 1988) (cautioning against employing hindsight by using the appellant's disclosure as a blueprint to reconstruct the claimed invention from the isolated teachings of the prior art).

As discussed above, the Fried reference teaches first using buyback criteria to select a subset of stocks, and then using price/earnings ratio (or price/sales ratio) to choose stocks from the subset of stocks to form a portfolio, while the Dow Dogs reference is a news article commenting on the Dow Dogs strategy using dividend yields to select a set of stocks for a portfolio.[40] In order to modify the method of the Fried reference to get the claimed invention, one will at least have to (1) substitute the dividend yield taught in the Dow Dogs reference for the price/earnings or price/sales ratio of the Fried method; (2) then change the Fried method from being two steps (or sub-steps) in seriatim using the buyback criteria to derive the buyback subset and then the dividend yield to screen or rank the stocks in the subset to a single step of comparing the stocks to a single predetermined value; and (3) then choose to use the sum of the buyback ratio and the dividend yield as the predetermined value instead of using some other predetermined value relationship between them. The Examiner has not shown sufficient motivation in the prior art for one of ordinary skill in the art to make any of these modifications, let alone the entire complex combination. *See, e.g., Yamouchi Pharm. Co. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 56 USPQ2d 1641 (Fed. Cir. 2000).

The Dow Dogs reference does mention that the Dow Dogs strategy was undermined because, as the bull market progressed, corporate managers spent cash generated by their businesses on expanding, or buying back stock. The final Office action holds that this qualifies

[40] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 12-29, at col. 4: lines 6-7 and 36-37, and at claim 1; Appendix Ex. D, Dow Dogs at pages 1-3.

as motivation to take buyback ratio as well as dividend yield into account. However, the Dow Dogs reference does not teach or suggest whether and how buyback information can be combined with dividend yields to effectively rank and select securities for a portfolio. Neither does the Fried reference teach to do so. Dividend yields were chosen by the Examiner to be combined with buyback information in the selection criteria because the present application discloses and claims a method using a predetermined relationship between the buyback ratio and the dividend yield in the predetermined criteria. A person of ordinary skill in the art, without using impermissible hindsight, would have not found such a motivation existing in the cited prior art.

Even if there were motivation to take buyback ratio as well as dividend yield into account, there would have been many possible ways to use them, including to use them separately in different steps (or substeps) in seriatim as the Fried reference explicitly teaches for buyback criteria and price/sales or price/earnings ratios.[41] The Examiner selected a predetermined value relationship between buyback ratios and dividend yields over all other possibilities against the express teaching of the Fried reference to first use buyback criteria to select a subset of securities out of all available securities and then use the second criteria to screen and rank securities in the buyback subset of securities.[42] The Examiner has cited no prior art providing a motivation or suggestion to justify such a combination, and the predetermined relationship between buyback ratios and dividend yields was chosen by the Examiner as the criteria only because the present application teaches to do so.[43] *See*, *Rhone-Poulenc AGRO v. DeKalb Genetics Corp.*, 272 F.3d 1335, 1358, 60 USPQ2d 1769, 1793-94 (Fed. Cir. 2001) (finding no motivation to combine because there was no "specific language" from the prior art cited to justify such a combination).

However, even this modification of the Fried and Dow references with hindsight is not enough to render the currently pending claims obvious, because the claims not only require a predetermined relationship between buyback ratios and dividend yields as the criteria but require

[41] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 4: lines 6-7 and 36-37.

[42] Appendix Ex. C, U.S. Pat. No. 6,035,286 (Fried) at col. 2: lines 12-29, at col. 4: lines 6-7 and 36-37, and at claim 1.

[43] Appendix Ex. B, Specification, at page 2, lines 18-20, at page 10, claim 10.

the predetermined relationship includes the magnitude of the sum of the buyback ratios and the dividend yields.[44] The Examiner admits that a variety of predetermined relationship between dividend yields and buyback ratios can be possibly used.[45] In order to justify his rejections, the Examiner suggested that it would be obvious to use the sum of the buyback ratio and dividend yield, because the sum of the two (1) "is a direct measure of paid-out earnings"; and (2) "has the charm of simplicity."[46] As it is discussed above, the Examiner has cited no prior art references teaching or suggesting that the sum of the buyback ratio and dividend yield of a stock is a direct measure of paid-out earnings, let alone references teaching or suggesting that paid-out earnings is useful for selecting securities. The Examiner's statement that the sum of dividend yield and buyback ratio is a direct measure of paid-out earnings is nothing more than a speculation, which cannot help to establish a *prima facie* case of obviousness. *See Ex parte Yamamoto*, 57 USPQ2d 1382, 1384 (Bd. Pat. App. & Interf. 2000) (rejecting Examiner's rejection because the "[E]xaminer has merely conjectured and speculated that because Ishihara's composition is directed to stabilized higher aliphatic aldehyde compounds it would be considered by one of ordinary skill in the art to be suitable for the stabilization of the claimed functional group containing compounds, and such speculation is not sufficient for establishing a *prima facie* case of obviousness").

The Applicant totally agrees that using the magnitude of the sum of dividend yields and buyback ratios as a criterion has the charm of simplicity, which is one of the objectives of the present invention and shows the creativeness of it. However, the Examiner did not glean this "charm of simplicity" from the prior art, but from the teaching of the present application. In other words, the disclosure of the present application itself was used as if it were prior art to challenge the patentability of its own claims, which is contrary to the law. *Ecolochem*, 227 F.3d at 1371, 56 USPQ2d at 1072; *In re Rouffet*, 149 F.3d 1350, 1358, 47 USPQ2d 1453, 1458 (Fed. Cir. 1998).

To add up two numbers is simple enough. However, the wild conception of adding up two uncorrelated performance data showing different aspects of a stock and then simply using

[44] Appendix Ex. A, claims 1 and 15.

[45] Appendix Ex. E, Final Office Action of June 10, 2004, at page 11.

[46] Appendix Ex. E, Final Office Action of June 10, 2004, at page 11.

the sum as a criterion to rank and select securities for an investment portfolio is not obvious but creative, because no prior art had taught or suggested or given any hint that this might work. If it had been so obvious to use the sum of two performance data of a stock as a criterion to select securities because of its "charm of simplicity," the inventor of the Fried method would have perceived this charm and chosen to do so. But the inventor of the Fried method used buyback ratios and price/sales or price/earnings ratios independently in different seriatim steps (or substeps), and did not even suggest that they (or any other two different kinds of performance numbers) can be added up (or consolidated in another manner) to provide selection criteria. Compared to those taught in the Fried reference, the method (claims 1, 2, and 4-14) and apparatus (claims 15, 16, and 18-20) of the present application enjoy the charm of simplicity and are no way obvious over the cited prior art.

The law is clear that, in determining obviousness, one cannot use hindsight to utilize the claims as a template and reconstruct the invention by picking and choosing elements at will from the prior art and different possibilities absent some teaching or suggestion supporting the combination. *Ecolochem*, 227 F.3d at 1371, 56 USPQ2d at 1072; *Pro-Mold and Tool Co., v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1572, 37 USPQ2d 1626, 1630 (Fed Cir. 1996). The Fried and Dow Dogs references or any other cited reference, viewed without hindsight, does not provide any teaching or suggestion to use the sum of dividend yields and buyback ratios for selecting securities. Because of the lack of teaching and suggestion and the awkwardness of adding two different kinds of performance data up, it is even not "obvious to try" to use the sum of dividend yields and buyback ratios for selecting securities, although "'[o]bvious to try' has long been held not to constitute obviousness." *In re Deuel*, 51 F.3d 1552, 1559, 34 USPQ2d 1210, 1216 (Fed. Cir. 1995); *see Ecolochem*, 227 F.3d at 1374, 56 USPQ2d at 1075; *In re Antonie*, 559 F.2d 618, 620, 195 USPQ 6, 8 (C.C.P.A. 1977).

Nonetheless, the Examiner proposed that it would be obvious for a person of ordinary skill in the art to try using dividend yields to modify the method and system of the Fried reference and to try using the sum of the magnitude of dividend yields and buyback ratios to select securities for an investment portfolio. <u>This proposed modification is prohibited hindsight.</u> The Examiner's statement that the sum of dividend yield and buyback ratio "has the charm of simplicity" makes it plain that the proposed modification is inspired only by the present

application itself. "There must, however, be a reason apparent at the time the invention was made to the person of ordinary skill in the art for applying the teaching at hand, or the use of the teaching as evidence of obviousness will entail prohibited hindsight. *Graham v. John Deere Co.*, 383 U.S. 1, 36, 148 USPQ 459, 474 (1966)." *In re Cullis*, 11 USPQ2d 1876, 1879, 1989 Pat. App. Lexis 6, at *12 (Bd. Pat. App. & Interf. 1989); *see also In re Ohsumi*, 21 USPQ2d 1020, 1025, 1991 Pat. App. LEXIS 10, at *18 (Bd. Pat. App. & Interf. 1991); *In re Hiyamizu*, 10 USPQ2d 1393, 1395, 1988 Pat. App. LEXIS 21, at *8 (Bd. Pat. App. & Interf. 1988).

No prior art and no evidence of knowledge or a motivation that existed at the time the invention was made is relied upon to suggest the selection and use of the magnitude of the sum of dividend yields and buyback ratios to rank and select securities. A showing of such a suggestion, teaching, or motivation to select and use the magnitude of the sum of dividend yields and buyback ratios is an "essential evidentiary component of an obviousness holding." *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1352, 48 USPQ2d 1225, 1232 (Fed. Cir.1998).

> Our case law makes clear that the best defense against the subtle but powerful attraction of a hindsight-based obviousness analysis is rigorous application of the requirement for a showing of the teaching or motivation to combine prior art references.

Dembiczak, 175 F.3d at 999, 50 USPQ2d at 1617.

> [E]ven when the level of skill in the art is high, the Board must identify specifically the principle, known to one of ordinary skill, that suggests the claimed combination. In other words, the Board must explain the reasons one of ordinary skill in the art would have been motivated to select the references and to combine them to render the claimed invention obvious.

Rouffet, 149 F.3d at 1359, 47 USPQ2d at 1459 (internal citations omitted); *see also Crown Operation Int'l.*, 289 F.3d at 1376, 62 USPQ2d at 1822; *Fritch*, 972 F.2dat 1265, 23 USPQ2d at 1783 . The final Office action does not meet "[t]he need for specificity pervad[ing] this authority." *See In re Lee*, 277 F.3d 1338, 1343-44, 61 USPQ2d 1430, 1433-34 (Fed. Cir. 2002).

The Board should eliminate hindsight from the present analysis by relying only on the cited prior art. The blatant hindsight construct relied upon by the Examiner has no place in this analysis, as a claimed invention "must be compared with something in existence, not with something that might be brought into existence by selecting individual features from prior art and combining them." *In re Jennings*, 182 F.2d 207, 208, 86 USPQ 68, 70 (C.C.P.A. 1950).

Thus, this Board should in effect reverse the present rejections on obviousness.

X. CONCLUSION

The Applicant has shown that no *prima facie* case of obviousness has ever been made out in the present application and that the Examiner has used impermissible hindsight in reaching the obviousness rejections.

First, no prior art applied in the rejections shows, and the Fried reference contradicts the idea, that the magnitude of the sum of dividend yields and buyback ratios can be used for selecting securities for an investment portfolio. Thus, the present invention requiring the use of predetermined criteria comprising the magnitude of the sum of the dividend yields and buyback ratios to rank available securities to form a group of ranked securities is not disclosed in or obvious from the prior art.

Second, the modification of the Fried reference and other prior art of record as suggested by the Examiner involves prohibited hindsight reconstruction. In fact, there is even no teaching or suggestion in the cited prior art that the sum of any two or more kinds of performance data of securities is useful and will succeed to select securities for an investment portfolio, let alone the magnitude of <u>the sum</u> of dividend yields and buyback ratios. Again, the *prima facie* case fails.

Thus, the obviousness rejections of record should be reversed and claims 1, 2, 4-16 and 18-20 as currently pending should be found patentable.

Please charge any additional fees or credit overpayment to the deposit account of McAndrews, Held & Malloy, Ltd., Account No. 13-0017.

Respectfully Submitted,

January 10, 2005

George F. Wheeler
Reg. No. 28,766
An attorney for applicant(s)

MCANDREWS, HELD & MALLOY, LTD
500 West Madison Street, 34th Floor
Chicago, IL 60661
Telephone No. (312) 775-8000
Facsimile No.: (312) 775-8100

Exhibit A: Claims Involved In The Appeal

1. (Previously Presented) A method for selecting securities from a group of available securities for an investment portfolio, the method comprising:

collecting the dividend yields and buyback ratios of said group of available securities;

ranking at least some of the available securities according to predetermined criteria comprising a predetermined relationship between said collected dividend yields and said collected buyback ratios to form a group of ranked securities, the predetermined relationship comprising the magnitude of the sum of said collected dividend yields and said collected buyback ratios; and

selecting at least some of the ranked securities having the highest magnitude of the sum of said collected dividend yields and said collected buyback ratios to form a group of selected securities.

2. (Previously Presented) The method of claim 1 wherein said group of available securities comprises the 30 stocks that make up the Dow Jones Industrial Average.

3. (Canceled)

4. (Previously Presented) The method of claim 1 wherein said predetermined criteria consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios.

5. (Previously Presented) The method of claim 1 wherein said selecting comprises selecting a predetermined number of said ranked securities.

6. (Previously Presented) The method of claim 5 wherein said predetermined number is 10 or less.

7. (Previously Presented) The method of claim 1 wherein said method further includes purchasing at least some of said group of selected securities to form a group of purchased securities.

8. (Previously Presented) The method of claim 7 wherein said method further includes creating a unit investment trust comprising said purchased securities.

9. (Previously Presented) The method of claim 8 wherein the percentages of said purchased securities holdings in said unit investment trust are approximately equal.

10. (Previously Presented) The method of claim 8 wherein said unit investment trust has a life of 13 months or more.

11. (Previously Presented) The method of claim 7 wherein said method further includes creating a pooled investment vehicle comprising said purchased securities.

12. (Previously Presented) The method of claim 7 wherein said method further includes creating a variable annuity comprising said purchased securities.

13. (Previously Presented) The method of claim 7 wherein said method further includes creating an investment account comprising said purchased securities.

14. (Previously Presented) A computer-readable medium bearing a computer program containing instruction steps such that upon installation of said computer program in a general purpose computer, the computer is capable of performing the method of claim 1.

15. (Previously Presented) Apparatus for selecting securities from a group of available securities having dividend yields and buyback ratios for an investment portfolio, the apparatus comprising:

a memory storing the dividend yields and buyback ratios of said group of available securities;

a processor programmed to rank at least some of the available securities according to predetermined criteria comprising a predetermined relationship between said collected dividend yields and said collected buyback ratios to generate a group of ranked securities, the predetermined relationship comprising the magnitude of the sum of said collected dividend yields and said collected buyback ratios; and

an output unit indicating in human readable form at least some of said ranked securities having the highest magnitude of the sum of said dividend yields and said buyback ratios.

16. (Previously Presented) The apparatus of claim 15 wherein said group of available securities comprises the 30 stocks that make up the Dow Jones Industrial Average.

17. (Canceled)

18. (Previously Presented) The apparatus of claim 15 wherein said predetermined criteria consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios.

19. (Previously Presented) The apparatus of claim 15 wherein said processor selects a predetermined number of said ranked securities.

20. (Previously Presented) The apparatus of claim 19 wherein said predetermined number is 10 or less.

21. (Canceled)

TITLE OF THE INVENTION

Techniques Of Selecting Securities For A Portfolio Using Buyback Ratio And Dividend Yield

BACKGROUND OF THE INVENTION

The present invention generally relates to techniques for selecting a securities portfolio for investment. More particularly, the present invention relates to an investment strategy for selecting a securities portfolio based upon two criteria: dividend yields and buyback ratios. One investment objective of the present invention is to provide an above-average total return from the portfolio through investing in stocks with high dividend yields and high buyback ratios.

A unit investment trust (UIT) is a professionally selected, diversified portfolio of stocks, bonds, or other securities that remains as a fixed portfolio throughout the life of the trust. Investors in a UIT purchase units, which represent an undivided ownership in the entire portfolio. Unlike mutual funds, in which the portfolio is actively managed and traded and continuously changes, UITs generally remain fixed for a predetermined period of time. Portfolios are designed to fill a variety of investment needs and risk tolerance levels. They fall into primarily two categories, equity and fixed income.

Equity portfolios are typically classified as either strategy portfolios or sector portfolios. Strategy portfolios follow predetermined investment criteria for selecting the stocks for the portfolio. All strategies have three inherent qualities:

1. Simplicity: The strategies seek to out-perform specified indices by selecting portfolios using sound, fundamental screens that reflect the historical behavior of the securities.

2. Resilience: The strategies must show back-tested results and have staying power even through bear markets.

3. Discipline: The strategies dictate which stocks are chosen for the portfolio; no emotional judgments are made and the strategies always remain the same.

Heretofore, investment strategies have been illustrated in U.S. Patent No. 5,978,778 issued to O'Shaughnessy on November 2, 1999 and U.S. Patent No. 5,132,899 issued to Fox on July 21, 1992. However, these investment strategies are not the same as the method of the present invention.

SUMMARY OF THE INVENTION

A first embodiment of the invention is useful for selecting securities from a group of available securities for an investment portfolio. In such an environment, the first embodiment comprises collecting the dividend yields and buyback ratios of the group of available securities. At least some of the available securities are ranked according to predetermined criteria comprising a predetermined relationship between the collected dividend yields and the collected buyback ratios to form a group of ranked securities. At least some of the ranked securities are selected to form a group of selected securities.

A second embodiment of the invention is useful for selecting securities from a group of available securities having dividend yields and buyback ratios for an investment

portfolio. The second embodiment comprises a memory storing the dividend yields and buyback ratios of the group of available securities. A processor is programmed to rank at least some of the available securities according to predetermined criteria comprising a predetermined relationship between the collected dividend yields and the collected buyback ratios to generate a group of ranked securities. An output unit indicates in human readable form at least the ranked securities.

By using the foregoing techniques, dividend yields and buyback ratios may be used in an investment strategy attempting to obtain above-average total returns. These and other features of the present invention are discussed or are apparent in the following detailed description of the preferred embodiments of the invention.

BRIEF DESCRIPTION OF THE DRAWINGS

Figure 1 is a schematic flow chart depicting the steps in an exemplary method of selection of securities.

Figure 2 is a schematic block diagram of a computer system embodying one form of the invention.

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENTS

The security selection techniques disclosed in this specification may be used in an investment strategy which seeks to outperform a typical index by adhering to a disciplined investment process. The first step in this strategy is defining the universe of securities for potential investment. In one embodiment of the present invention, the technique begins with using a database of stocks of companies listed in the Dow Jones

Industrial Average ("DJIA"), which consists of 30 U.S. stocks chosen by the editors of *The Wall Street Journal* as being representative of the broad market and of American industry. However, the present invention is not intended to be limited to just the DJIA, or even to stocks; any type of security meeting the selection criteria may be utilized. Moreover, the present invention is not limited to any particular database of securities; any group of securities, including one developed by the user of the present technique, could be substituted for the DJIA.

The present techniques enable selection of securities from the group of securities based upon criteria including dividend yields and buyback ratios. By looking at dividend yields, the preferred embodiment seeks to uncover stocks that may be out of favor or undervalued. Regular dividends are common for established companies and have typically accounted for a large portion of the total return on stocks. Historically, companies rewarded shareholders in the form of dividend payments.

The preferred embodiment also looks at buyback ratios. More recently, many companies have turned to stock reduction programs as a tax efficient way to bolster their stock prices and reward shareholders. Companies which have reduced their shares through a share buyback program may provide a strong cash flow position and, in turn, high quality earnings. Buyback ratio is determined by subtracting one from the ratio of a company's shares of common stock outstanding 12 months prior to the initial date of deposit divided by a company's shares of common stock outstanding as of the business day prior to the initial date of deposit.

Referring to Figure 1, a stock database 11 is formed by collecting data using, for example, a keyboard 50 of a conventional personal computer 20 (Figure 2). The data collection includes the names of, or a representation of, the thirty (30) stocks that make up the DJIA. The names of the 30 stocks, or their symbols or other representative indicia, are included in the database 11 (Figure 1) which is stored in a conventional computer memory 30 (Figure 2).

In addition to the identity of the 30 stocks, other data related to each stock may also be stored in the database 11 and memory 30 in association with its respective stock name. Such information may include (1) dividend yield and (2) buyback ratio.

In the step indicated by the diagram block 13 (Figure 1), the stocks in the database 11 are ranked by any conventional means, such as by sorting or organizing, according to the magnitude of the sum of each stock's dividend yield and buyback ratio. The sorting may be done by organizing the stocks in descending order of these sums. The ranked stock names are written to File A, as shown in the diagram block 15. The ranking is executed by a processor 40 of computer system 20. Processor 40 may be a microprocessor, microcontroller or any integrated circuit capable of logical and arithmetic operations.

In addition to buyback ratio and dividend yield, various criteria may be used to rank the stocks, such as capitalization. However, in the preferred embodiment, only the dividend yield and buyback ratio for each stock are used for ranking. That information may be initially stored in database 11 and memory 30.

The results of the ranking are sent to a conventional output device, such as display monitor 60 having a display face 70. Alternatively, the results may be printed by a printer (not shown). The input and display process may be aided by a conventional computer mouse 80.

After File A has been completed, the step indicated by diagram block 17 is performed in which a desired number (for example, 10) of stocks from File A with the highest combined dividend yields and buyback ratios are selected. This part of the process may or may not be performed by computer system 20. Since the stocks are sorted in File A in descending order of the sum of each stock's dividend yield and buyback ratio, this selection is performed by identifying the first 10 stocks in the ordered list. As will suggest itself, other modes of selection may be used.

The identities of those 10 stocks are stored in File B as shown at diagram block 19. As understood, File B may be a file different from File A, or non-selected stocks in File A may be deleted to form File B. File B also may be stored in memory 30.

A computer program capable of executing the steps described in connection with Figure 1 may be stored in memory 30 and on a conventional computer readable medium, such as a floppy disk 90 (Figure 2) or a CD-ROM. Files A and B also may be stored on such medium.

In an exemplary embodiment, a portfolio of the top 10 stocks of File B will represent one series of a unit investment trust. With the deposit of the selected shares of stock, a percentage relationship among the securities in the trust's portfolio is established. In an exemplary embodiment, the percentages of stock holdings in the portfolio will be

approximately equal on the initial date of deposit. Since the prices of the selected securities will fluctuate daily, the ratio of securities in the trust, on a market value basis, will also change daily.

The trust will terminate on a mandatory termination date, which will typically be approximately 13 months from the initial date of deposit. Twelve-month termination dates are also contemplated. However, the duration of the investment vehicle is not limited to any particular length of time.

Some possible features and benefits of such a unit investment trust or other pooled vehicle or investment account include (although these are not essential features of the present invention): immediate liquidity, in-kind distribution, low expenses, a dividend reinvestment option, and an exchange option. The present techniques allow a purchaser to acquire a quality portfolio of attractive common stocks in one convenient purchase.

The present invention is not limited to the selection of securities for funding a unit investment trust. Securities may be selected for funding any type of pooled investment vehicle or investment account. The present invention could also be used in connection with variable annuities, open-ended mutual funds, etc.

Price volatility is a potential risk factor relevant to a unit investment trust selected pursuant to the present method. Since the trust invests in common stocks of U.S. companies, the value of the trust's units will fluctuate with changes in the value of these common stocks. Common stock prices fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers

occur. Because the trust would not be managed, stocks would not be sold in response to or in anticipation of market fluctuations, as is common in managed investments. The present techniques may use dividend yield as part of its selection criteria, which is a contrarian strategy in which the securities selected share qualities that have caused them to have lower share prices or higher dividend yields than other common stocks in their peer group.

The use of dividends also presents a risk to an investor. There is no guarantee that the issuers of the securities will declare dividends in the future or that if declared they will either remain at current levels or increase over time.

From time to time, various legislative initiatives are proposed in the United States and abroad which may have a negative impact on certain of the companies represented in the trust. In addition, litigation regarding any of the issuers of the securities or of the industries represented by these issuers, may negatively impact the share prices of these securities. The impact of any pending or threatened litigation on the share prices of the securities cannot be predicted.

In an exemplary embodiment, the following Table would illustrate one possible selected portfolio:

TABLE

Number of Shares	Issuer of Security	% of Aggregate Offering Price	Market Value per Share ($)	Cost of Securities to Trust ($)	Current Dividend Yield (%)
245	AlliedSignal Inc.	10	60.500	14.823	1.12
359	The Boeing Company	10	41.313	14.831	1.36
270	Caterpillar Inc.	10	55.000	14.850	2.36
224	Eastman Kodak Company	10	66.438	14.882	2.65
191	Exxon Corporation	10	77.875	14.874	2.26

208	General Motors Corporation	10	71.250	14.820	2.81
155	International Business Machines Corporation	10	95.875	14.861	0.50
196	Merck & Co., Inc.	10	75.938	14.884	1.53
107	J.P. Morgan & Company, Inc.	10	139.313	14.906	2.84
591	Philip Morris Companies, Inc.	10	25.125	14.849	7.64

While particular elements, embodiments and applications of the present invention have been shown and described, it is understood that the invention is not limited thereto since modifications may be made by those skilled in the art, particularly in light of the foregoing teaching. It is therefore contemplated by the appended claims to cover such modifications and incorporate those features which come within the spirit and scope of the invention.

What is claimed is:

1. A method for selecting securities from a group of available securities for an investment portfolio comprising:

collecting the dividend yields and buyback ratios of said group of available securities;

ranking at least some of the available securities according to predetermined criteria comprising a predetermined relationship between said collected dividend yields and said collected buyback ratios to form a group of ranked securities;

selecting at least some of the ranked securities to form a group of selected securities.

2. The method of claim 1 wherein said group of available securities comprises the 30 stocks that make up the Dow Jones Industrial Average.

3. The method of claim 1 wherein said predetermined relationship comprises the sum of said collected dividend yields and said collected buyback ratios.

4. The method of claim 1 wherein said predetermined criteria consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios.

5. The method of claim 1 wherein said selecting comprises selecting a predetermined number of said ranked securities.

6. The method of claim 5 wherein said predetermined number is 10 or less.

7. The method of claim 1 wherein said method further includes purchasing at least some of said group of selected securities to form a group of purchased securities.

8. The method of claim 7 wherein said method further includes creating a unit investment trust comprising said purchased securities.

9. The method of claim 8 wherein the percentages of said purchased securities holdings in said unit investment trust are approximately equal.

10. The method of claim 8 wherein said unit investment trust has a life of 13 months or more.

11. The method of claim 7 wherein said method further includes creating a pooled investment vehicle comprising said purchased securities.

12. The method of claim 7 wherein said method further includes creating a variable annuity comprising said purchased securities.

13. The method of claim 7 wherein said method further includes creating an investment account comprising said purchased securities.

14. A computer-readable medium bearing a computer program containing instruction steps such that upon installation of said computer program in a general purpose computer, the computer is capable of performing the method of claim 1.

15. Apparatus for selecting securities from a group of available securities having dividend yields and buyback ratios for an investment portfolio comprising:

a memory storing the dividend yields and buyback ratios of said group of available securities;

a processor programmed to rank at least some of the available securities according to predetermined criteria comprising a predetermined relationship between said collected dividend yields and said collected buyback ratios to generate a group of ranked securities; and

an output unit indicating in human readable form at least said ranked securities.

16. The apparatus of claim 15 wherein said group of available securities comprises the 30 stocks that make up the Dow Jones Industrial Average.

17. The apparatus of claim 15 wherein said predetermined relationship comprises the sum of said collected dividend yields and said collected buyback ratios.

18. The apparatus of claim 1 wherein said predetermined criteria consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios.

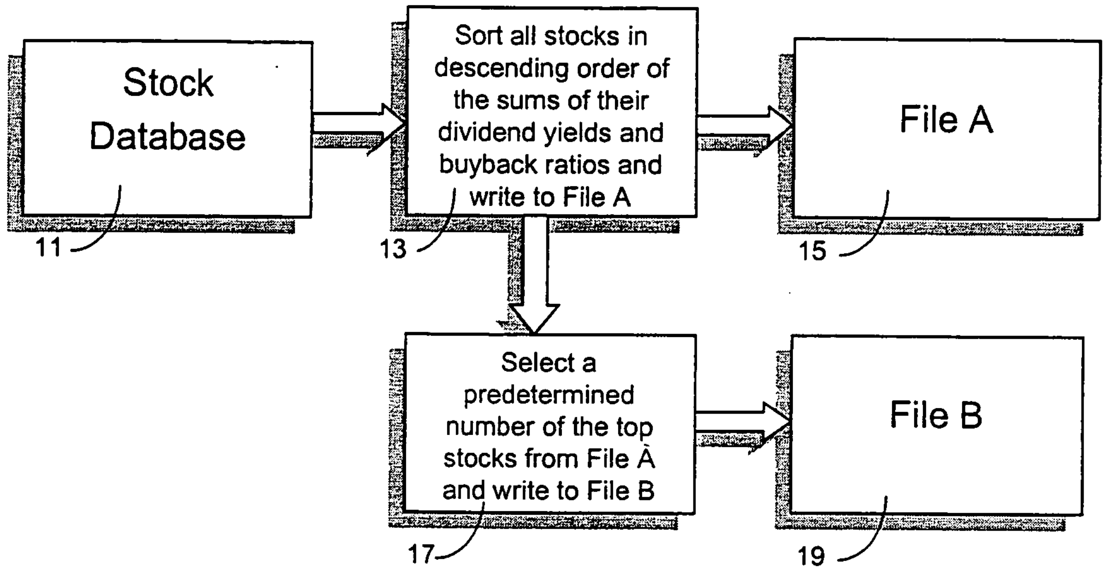
19. The apparatus of claim 15 wherein said processor selects a predetermined number of said ranked securities.

20. The apparatus of claim 19 wherein said predetermined number is 10 or less.

ABSTRACT OF THE DISCLOSURE

A technique is provided for selecting a portfolio of securities for investment purposes. Specifically, the technique utilizes two types of securities-related data: dividend yields and buyback ratios. A group of securities is ranked by the sum of each security's dividend yield and buyback ratio; a number of the securities having the highest combined dividend yields and buyback ratios are selected for investment. The technique may include a computer for storing the buyback ratios and dividend yields.

Figure 1



Stock Database
11
Sort all stocks in descending order of the sums of their dividend yields and buyback ratios and write to File A
13
File A
15
Select a predetermined number of the top stocks from File A and write to File B
17
File B
19

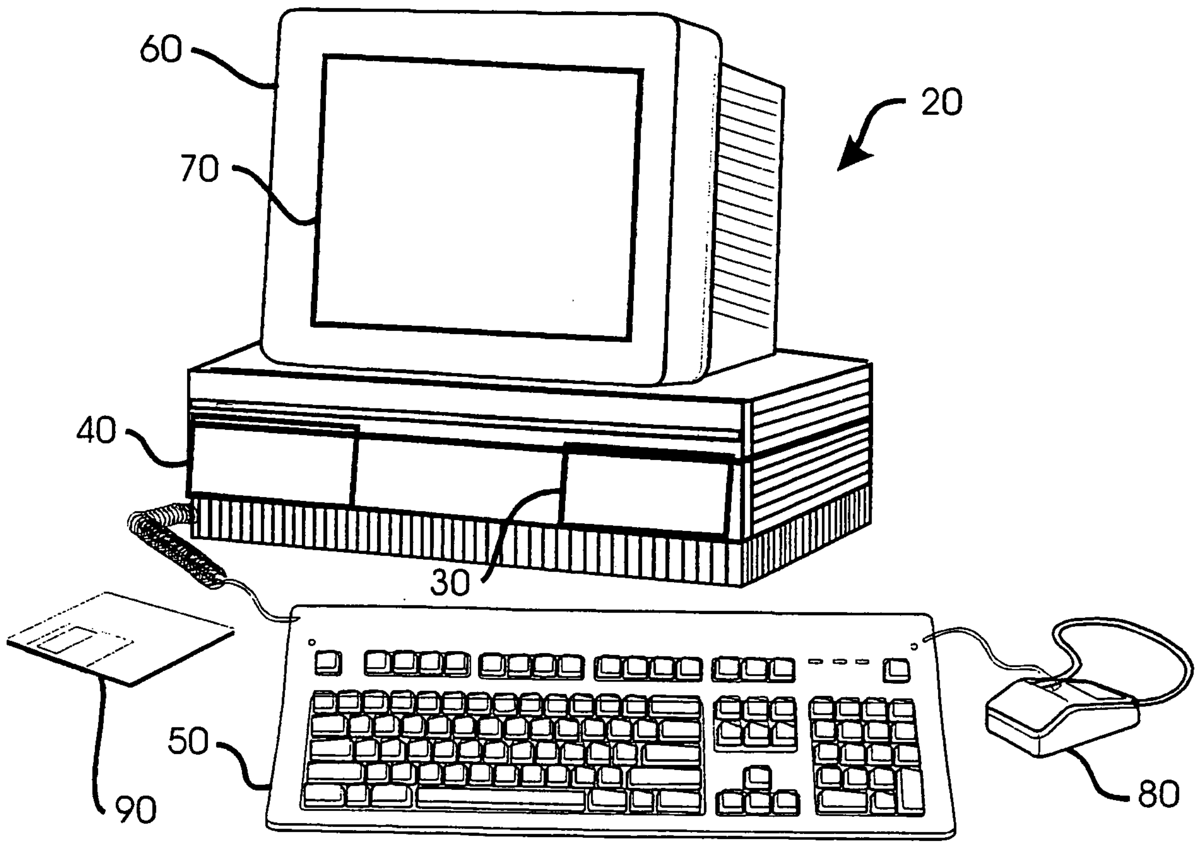


FIG. 2

US006035286A

United States Patent [19]

Fried

[11] Patent Number: 6,035,286

[45] Date of Patent: Mar. 7, 2000

[54] COMPUTERIZED SYSTEM AND METHOD FOR CREATING A BUYBACK STOCK INVESTMENT REPORT

[76] Inventor: David R. Fried, 3625 Surfwood Rd., Malibu, Calif. 90265

[21] Appl. No.: 09/030,854

[22] Filed: Feb. 26, 1998

[51] Int. Cl.[7] G06F 17/60

[52] U.S. Cl. 705/36; 705/36

[58] Field of Search 705/16, 36

[56] References Cited

U.S. PATENT DOCUMENTS

4,376,978	3/1983	Musmanno	364/408
4,953,085	8/1990	Atkins	364/408
5,132,899	7/1992	Fox	364/408
5,761,442	6/1998	Barr et al.	705/36
5,806,048	9/1998	Kiron et al.	705/36

OTHER PUBLICATIONS

Corporate Stock Buyback Are Soaring Exchange Seeks To Make Put' Options Part of the Strategy, Treasury Manager's Report, vol: 4 Issue: 4, Feb. 16, 1996.

Acquisitions May Make More Sense That Share Buybacks In Current Market, Analysts Say, Petroleum Finance Week, vol: 6 Issue: 7, Feb. 16, 1998.

Hedging tools provide portfolio security blanket, Koflowitz, L. Wall Street Computer Review vol: 6 Issue: 6, pp. 42–43, 45–46, 50, 80–81, Mar. 1, 1989.

Psst . . . want a hot stock tip? Bet insiders' info on the Web, Mark Roberti, HomePC Issue: p. 174, Oct. 1, 1996.

Targeted repurchases and common stock returns , Mikkelson, W.H.; Ruback, R.S., Rand Journal of Economics vol: 22 Issue: 4, pp. 544–561, Dec. 1, 1991.

Nations Funds Offers Two New Managed Index Funds; Combining Active and Passive Portfolio Management, Business Editors, Business Wire, Oct. 1997.

How to Find a Stock That' Headed for Trouble, Business Week; New York; Dec. 30, 1996, Weiss, Gray.

Stock Buyback Programs—Stocks, Michael Griffs, http://stocks.miningco.com/library/week . . . TMog=56669803893354&Mint=56669803893354, Apr. 6, 1998.

"The New Issue Puzzle," Tim Loughran and Jay R. Ritter, The Journal of Finance, vol. 1, No. 1, Mar. 1995, pp. 23–51.

"Market Underreaction to Open Market Share Repurchase," Working Paper No. 106, Feb. 1995, David Ikenberry, Josef Lakonishok, and Theo Vermaelen.

"What Works on Wall Street, A Guide to the Best-Performing Investment Strategies of All Time," James P. O'Shaughnessy, pp. 105–122.

"Commentary: Buybacks Make News, But Do They Make Sense?", Nanette Byrnes, Business Week, Aug. 12, 1996, pp. 1–2.

"Stock Buybacks Aren't Always Good Sign for Investors," Wall Street Journal, Jul. 3, 1997 Suzanne McGee and Greg Ip.

"The Big Three's Dilemma," Alex Taylor III, Fortune, Mar. 16, 1998.

"The Hidden Meanings of Stock Buybacks," Ray Bartkus, Fortune, Sep. 8, 1997.

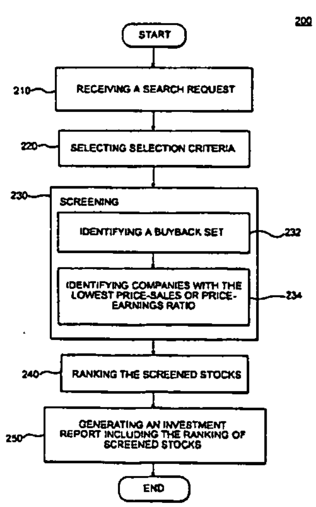
Equity Portfolio Investment Computing (EPIC), Ford Investment Services, Inc. 1997.

Primary Examiner—James P. Trammell
Assistant Examiner—Yehdega Retta
Attorney, Agent, or Firm—Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P.

[57] ABSTRACT

A computer implemented method for creating an investment report. A database of stock information is screened based upon buyback ratio and prices/sales ratio selection criteria. The buyback ratio represents the percentage of stocks repurchased by a company during a given period that resulted in a net decrease in outstanding shares. The method and system use the criteria to identify companies with a highest buyback ratio and with the lowest price/sale ratio. The resulting list of stocks are ranked and output in an investment report that provides superior return over conventional investment techniques.

20 Claims, 2 Drawing Sheets



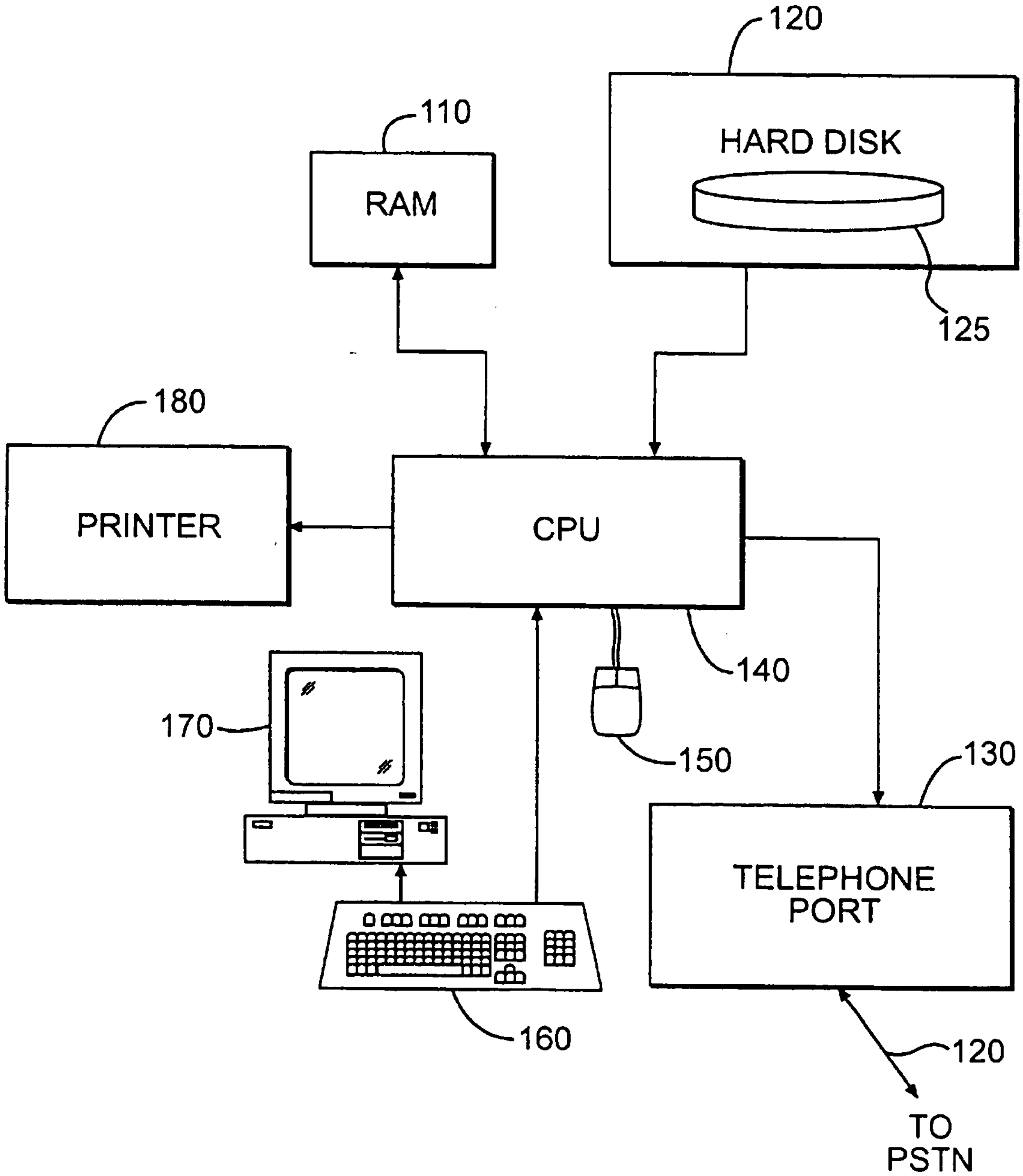

120
110
HARD DISK
RAM
125
180
PRINTER
CPU
140
170
150
130
TELEPHONE
PORT
160
120
TO
PSTN

FIG. 1

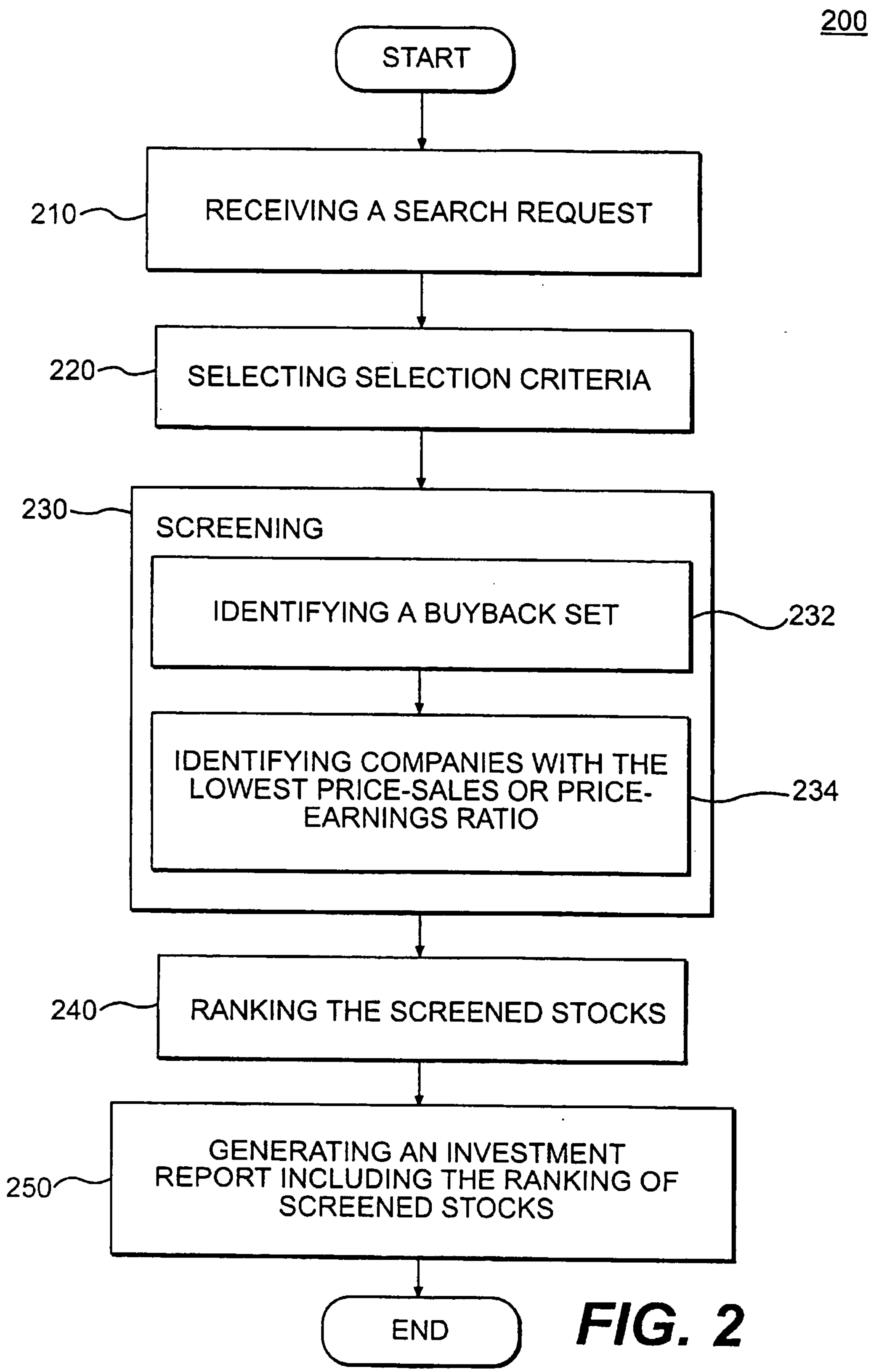

200
START
210
RECEIVING A SEARCH REQUEST
220
SELECTING SELECTION CRITERIA
230
SCREENING
IDENTIFYING A BUYBACK SET
232
IDENTIFYING COMPANIES WITH THE LOWEST PRICE-SALES OR PRICE-EARNINGS RATIO
234
240
RANKING THE SCREENED STOCKS
250
GENERATING AN INVESTMENT REPORT INCLUDING THE RANKING OF SCREENED STOCKS
END

FIG. 2

COMPUTERIZED SYSTEM AND METHOD FOR CREATING A BUYBACK STOCK INVESTMENT REPORT

BACKGROUND

1. Field of Invention

The present invention relates generally to the field of investment portfolio management. More particularly, the present invention relates to a computerized method and system for creating a stock investment report based on a buyback investment strategy.

2. Description of Related Art

Investment in accordance with the stock buyback theory is based on the premise that a company's management is in the best position to determine when the company stock is over or under valued. Further, it has been postulated that companies announcing a stock buyback tend to outperform the overall market. For example, in the article entitled "Market Underreaction to Open Market Share Repurchases," by D. Eikenberry and J. Lakonishok, Journ. of Finance (1994), the authors demonstrate that companies announcing stock buybacks outperformed the market by a margin of up to 9% in the four years after the initial repurchase announcement. The study did not follow the companies, however, to determine their performance for any action, (i.e., actual repurchase to decrease the percentage of outstanding shares) after the announcements were made. Conversely, in "The New Issues Puzzle," by J. Ritter and T. Loughran, Journ. of Finance (1996), the authors demonstrated that companies issuing shares, whether through an initial public offering (IPO) or secondary offering, underperformed the market by 7% annually during a five year period after the stock's issuance. These studies demonstrate a company's ability to buy low and sell high in terms of their own stock. Currently, there is conflicting literature, however, as to whether companies actually repurchasing their stock outperform others in the market.

To develop successful investment strategies, financial advisers currently rely on a myriad of theories and factors in an attempt to find the best investment vehicles for their clients. These theories are often based on age-old economic trends or newly developed calculations and stock screening techniques. One such recognized value factor for predicting or analyzing company performance is the price/sales ratio. The price/sales ratio is the relationship of a company's stock price to its annual sales (or revenues) per share. In the book, *What Works on Wall Street*, by J. P. O'Shanunnasey (1996), the author showed that the 50 stocks with the lowest price/sales ratio out performed the market by an average of 4.27 percentage points from Dec. 31, 1952 to Dec. 31, 1994. This level of outperformance was greater than the difference produced by any single variable.

There is, however, no single method that combines the performance of the price/sales ratio with the buyback theory to maximize the performance of a stock investment portfolio. In fact, many experts in the field discount the importance of buyback statistics, and those recognizing its potential have not thought to combine it with a company's price/sales statistics.

Therefore, there exists a need for an investment strategy that automatically determines those companies buying back the greatest percentage of their stock while maintaining the lowest price/sales ratio. The results of this method should help investors develop a strategy that combines the benefits of the price/sales ratio value factor with the stock buyback theory.

SUMMARY OF THE INVENTION

Systems and methods consistent with the present invention address these needs by combining data processing and information gathering techniques with a computer apparatus to determine those companies with the highest stock buyback percentage and lowest price/sales ratio.

Specifically, in accordance with the purpose of the invention as embodied and broadly described herein, a method executed by a computer with access to a database of stock information is provided for creating a buyback investment report. The method includes the steps of: receiving a request specifying a selection of stocks from a database of stock information; selecting criteria for screening the selection of stock, wherein the selected criteria consists of a buyback ratio and at least one of price/sales ratio and a price/earnings ratio for each stock, screening the selection of stocks the screening process including the substeps of identifying the stocks from the specified selection having buyback ratios, wherein a buyback ratio corresponds to a percentage of issued stock repurchased from the public during a specified period resulting in a decrease of shares outstanding, and identifying a price/sales ratio or price/earnings in the group for each such stock of a subset of the stocks having buyback ratios, wherein the subset is determined based on the buyback ratio for each stock; and ranking stocks within the subset based on the price/sales ratio or price/earnings for each stock, wherein the stock having the lowest price/sales ratio or price/earnings ratio is ranked the highest.

The summary and the following detailed description should not restrict the scope of the claimed invention. Both provide examples and explanations to enable others to practice the invention.

BRIEF DESCRIPTION OF THE DRAWINGS

The accompanying drawings, which are incorporated in and constitute a part of this specification, illustrate systems and methods consistent with this invention and, together with the description, explain the principles of the invention.

In the drawings,

FIG. 1 is a block diagram of a computerized stock portfolio management system consistent with the present invention; and

FIG. 2 is a block diagram of a method of automatically generating a buyback investment report consistent with the present invention.

DETAILED DESCRIPTION

The following description of embodiment of this invention refers to the accompanying drawings. Where appropriate, the same reference numbers in different drawings refer to the same or similar elements.

Systems and methods consistent with the present invention provide investors with the means to select an investment group based on a set of selection criteria consisting of a buyback ratio and price/sales or price/earnings ratio to improve investment return.

FIG. 1 is a block diagram showing a computerized system for generating a buyback stock report. Preferably, system **100** comprises a standard computer terminal capable of receiving user initiated input commands, processing data, and outputting the results for the user (for example, an IBM compatible personal computer would meet these requirements). System **100** consists of RAM **110**, hard disk **120**, telephone port **130**, Central Processor Unit (CPU) **140**,

mouse 150, keyboard 160, video display 170, and a printer 180. These components may be standard off-the-shelf hardware. For example, CPU 140 may be a Pentium processor, and video display 170 may be a NEC MultiSync 3V monitor. Telephone port 130 connects CPU 140 to a public switched telephone network (PSTN).

Preferably, hard disk 120 includes a database 125 of company stock profiles including detailed information fields. Stock information database 125 is preferably input to system 100 via standard data transfer methods, such as a magnetic media exchange or manual keyboard transcription. Once entered, the stock information database 125 is stored on hard disk 120. The Equity Portfolio Investment Computing (EPIC) database from Ford Investment Services, Inc. is an example of a stock information database suitable for use with systems consistent with the present invention. Stock database 125 may also be stored at a remote location and accessed via a secure network through a PSTN and telephone port 130 or a carrier wave from a server on the Internet. Moreover, database 125 could be stored on a computer readable media such as a floppy disk, a CD-ROM, a optical disk, etc., and accessed when the following method is executed.

FIG. 2 is a flow diagram showing a method 200 for generating a buyback stock report consistent with the present invention. Method 200 is implemented with system 100 to generate a stock investment portfolio and establish a buyback investment strategy. Preferably, stock database 125 has been previously stored in the hard disk 120, or is located on one of the alternative media, as noted above.

Initially, a user selects a group of stocks to search. This request is entered into system 100 by the user with keyboard 160 or some other standard input apparatus, such as a microphone or mouse 150. Any selection of stocks can be searched with the present embodiment, but preferably the selection consists of stocks in the Standard and Poor's 500 or the Dow Jones Industrial Average. Upon receiving the request (Step 210), system 100 screens the selection in accordance with selection criteria received by the user (Step 220). The screening step is preformed by the various components of the computer, in conjunction with software stored on a computer readable medium or embedded in RAM 110. The computer component uses conventional searching and processing techniques, such as text based searching, data field searching, or the like.

In the preferred embodiment, the selection criteria consists of a company's buyback ratio and either the price/sales ratio or the price/earnings ratio. The buyback ratio is the percentage of stocks repurchased by the issuing company over a given period that results in a net percentage decrease of the outstanding shares. Further, companies within the selection of stocks preferably have a market capitalization value to identify the value of the company, and the selection criteria consists of price/sales ratio or price/earnings ratio depending on whether the company value is in the higher or lower half, respectively, of a market capitalization value table preferably stored within database 125.

The selection criteria of the present invention has been empirically proven to outperform other selection criteria over the same time period. For example, testing has shown that the buyback ratio in conjunction with price/sales or price/earnings ratio criteria resulted in a portfolio with an annual return rate of 24.4 percentage points from Nov. 30, 1982 to Nov. 30, 1996. Further, larger portfolios developed using these particular selection criteria consistently outperformed the Standard and Poor 500 by 9.23% annually (i.e., 26.29% verses 17.06%, respectively). These statistics demonstrate that the selection criteria provide results superior to other previously disclosed combination of stock screening criteria.

System 100 uses the selection criteria to screen the selection of stocks by first, identifying a buyback subset within the selection of stocks (Step 232). For the purposes of the preferred embodiment, the buyback subset comprises those companies repurchasing their outstanding stock during a given period, thereby decreasing the percentage of outstanding shares. The period, which the user includes in his initial request, can be for any time period (ie., 6 month, 12 months, 5 years, etc.) depending upon the investor's particular investment criteria. Ideally, the user performs, method 200 several times, and thereby determines the optimal time period for which to gather data.

In the preferred embodiment, the user defines the level of buyback that constitutes a valuable selection criteria. This level is based upon buyback criteria stored within database 125, such as the percentage of outstanding stocks repurchased that cause a decrease in the number of shares outstanding, the average price of stocks repurchased, the overall volume of stocks repurchased during the selected period, the price yield—dividends paid per dollar invested, or price book value, etc. Other factors for selecting the buyback subset are equally within the scope of the present invention.

While these parameters (i.e., buyback level, time period, etc.) are preferably included with the initial request, they may be entered at various points throughout the performance of method 200. In this alternate embodiment, the user would be prompted via monitor 170 to enter a particular selection parameter that system 100 needed to perform its next processing step.

After determining the buyback subset, system 100 identifies those companies in the buyback subset with the lowest price/sales ratio or lowest price/earnings ratio (Step 234). Preferably, the user also informs system 100 what level of price/sales ratio or price earnings ratio is too high to be of interest to the investor. Again, in the preferred embodiment, the initial selection request may include this level, or the user could be prompted via monitor 170 to input his or her particular selection parameter.

Next, the screened stocks are ranked to provide a listing satisfying the criteria input by the user (Step 240). Preferably, ranking is done to give the user a workable listing of stocks in an order best suited for evaluation and investment. In the preferred embodiment, the screened stocks are ranked from lowest to highest price/sales ratio or lowest to highest price/earnings ratio. Finally, the ranking of stocks are generated and output by system 100 in the form of an investment report (Step 250). While this report is outputted directly to printer 180, the report may be, alternatively, stored on a standard computer storage medium such as a CD-Rom, a floppy disk, or data tape, for later use or manipulation by the user. Once stored, the stock report, or portfolio, can be rebalanced over a business investment period to determine the particular period (i.e., monthly, annually, quarterly, etc.) that would provide the best results for the investor. Rebalancing is a known method of reevaluating the stocks in the portfolio to determine whether the companies contained therein meet the particular investment criteria originally defined.

It will be appreciated by those skilled in this art that various modifications and variations can be made to the method and system consistent with the present invention

described herein without departing from the spirit and scope of the invention. Other embodiments of the invention will be apparent to those skilled in this art from consideration of the specification and practice of the invention disclosed herein. For example, while the preferred embodiment is described in terms of a local processing machine, one skilled in the art will recognize that the processing could be performed remotely by one or many computing systems. This remote processing would occur, for example, if a service provided users with phone-line access to a stock database, and chose to perform the processing procedures, for a fee, where the database resided. In this case, the output could be forwarded to the user via standard electronic means (i.e., e-mail) or other communication methods (i.e., fax, mail, etc.).

It is intended that the specification and examples be considered exemplary only, with a true scope and spirit of the invention being indicated by the following claims.

I claim:

1. A computer implemented method for creating a buyback investment report comprising the steps of:

receiving a request specifying a selection of stocks from a database of stock information;

selecting criteria for screening the selection of stock, wherein the selected criteria consists of a buyback ratio and at least one of price/sales ratio and a price/earnings ratio for each stock,

screening the selection of stocks, the screening process including the substeps of

identifying the stocks from the specified selection having buyback ratios, wherein a buyback ratio corresponds to a percentage of issued stock repurchased from the public during a specified period and resulting in a decrease of shares outstanding, and

identifying a price/sales ratio or price/earnings ratio in the group for each such stock of a subset of the stocks having buyback ratios, wherein the subset is determined based on the buyback ratio for each stock; and

ranking stocks within the subset based on the price/sales ratio or price/earnings ratio for each stock, wherein the stock having the lowest price/sales ratio or price/earnings ratio is ranked the highest.

2. The method of claim 1, wherein the database includes a market cap value table for identifying the market cap value of each company, and wherein the substep of identifying the price/sales ratio or the price/earnings ratio includes the substeps of

selecting the price/sales ratio for the companies in a top half of market cap table; and

selecting the price/earnings ratio for the companies in a bottom half of market cap table.

3. The method of claim 1, wherein the request specifies the Standard and Poor index, and wherein the screening step includes the substeps of

searching the Standard and Poor index within the database; and

identifying the companies having buyback ratios in the Standard and Poor index.

4. The method of claim 1, wherein the request specifies the Dow Jones Industrial Average, and wherein the screening step includes the substeps of

searching the Dow Jones Industrial Average within the database; and

identifying the companies having buyback ratios in the Dow Jones Industrial Average.

5. The method of claim 1, wherein the selection criteria includes a buyback level and the substep of identifying the companies having buyback ratios further includes the substep of

identifying the companies in accordance with the buyback selection level.

6. The method of claim 5, wherein the buyback selection level is a price value of stocks repurchased.

7. The method of claim 5, wherein the buyback selection level is a numerical volume of stocks repurchased.

8. The method of claim 1, further including the steps of

generating an investment report comprising the ranking of stocks; and

outputting the investment report.

9. The method of claim 8, wherein the outputting step of includes the substep of

storing the investment report on a storage medium.

10. A computerized investment management system for creating an investment report, comprising:

means for receiving a request specifying a selection of stocks from a database of stock information;

means for selecting criteria for screening the selection of stock, wherein the selected criteria consists of a buyback ratio and at least one of price/sales ratio and a price/earnings ratio for each stock,

means for screening the selection of stocks including

means for identifying the stocks from the specified selection having buyback ratios, wherein a buyback ratio corresponds to a percentage of issued stock repurchased from the public during a specified period and resulting in a decrease of shares outstanding, and

means for identifying a price/sales ratio or price/earnings ratio in the group for each such stock of a subset of the stocks having buyback ratios, wherein the subset is determined based on the buyback ratio for each stock; and

means for ranking stocks within the subset based on the price/sales ratio or price/earnings ratio for each stock, wherein the stock having the lowest price/sales ratio or price/earnings ratio is ranked the highest.

11. The system of claim 10, wherein the database includes a market cap value table for identifying the market cap value of each company, and wherein the means for identifying a price/sales ratio or price/earnings ratio includes

means for selecting the price/sales ratio for the companies in a top half of market cap table; and

means for selecting the price/earnings ratio for the companies in a bottom half of market cap table.

12. The system of claim 10, wherein the request specifies the Standard and Poor index, and wherein the means for screening includes

means for searching the Standard and Poor index within the database; and

means for identifying the companies having buyback ratios in the Standard and Poor index.

13. The system of claim 10, wherein the request specifies the Dow Jones Industrial Average, and wherein the means for screening includes

means for searching the Dow Jones Industrial Average within the database; and

means for identifying the companies having buyback ratios in the Dow Jones Industrial Average.

14. The system of claim 10, wherein the selection criteria includes a buyback level and the means for identifying the companies having buyback ratios further includes

means for identifying the companies in accordance with the buyback selection level.

15. The system of claim 14, wherein the buyback selection level is a price value of stocks repurchased.

16. The system of claim 14, wherein the buyback selection level is a numerical volume of stocks repurchased.

17. The system of claim 10, further including

means for generating an investment report comprising the ranking of stocks; and

means for outputting the investment report.

18. The system of claim 17, wherein outputting means includes

means for storing the investment report on a storage medium.

19. A computer readable medium containing instructions on controlling a data processing station for generating a buyback investment report comprising:

a receiving module configured to receive a request specifying a selection of stocks from a database of stock information;

a selecting module configured to select criteria for screening the selection of stock, wherein the selected criteria consists of a buyback ratio and at least one of price/sales ratio and a price/earnings ratio for each stock,

a screening module configured to screen the selection of stocks including

a first identifying module configured to identify the stocks from the specified selection having buyback ratios, wherein a buyback ratio corresponds to a percentage of issued stock repurchased from the public during a specified period and resulting in a decrease of shares outstanding, and

a second identifying module configured to identify a price/sales ratio or price/earnings ratio in the group for each such stock of a subset of the stocks having buyback ratios, wherein the subset is determined based on the buyback ratio for each stock; and

a ranking module configured to rank stocks within the subset based on the price/sales ratio or price/earnings ratio for each stock, wherein the stock having the lowest price/sales ratio or price/earnings ratio is ranked the highest.

20. The computer program product of claim 19, wherein the database includes a market cap value table for identifying the market cap value of each company, and wherein the second identifying module includes

a first selecting module configured to select the price/sales ratio for the companies in a top half of market cap table; and

a second selecting module configured to select the price/earnings ratio for the companies in a bottom half of market cap table.

* * * * *

DIALOG(R)File 494:St LouisPost-Dispatch

09509022
DOW DOGS **WILL HAVE THEIR DAY, FANS SAY CRITICS CALL STRATEGY OVERUSED, OUTDATED DOGS OF 1997 LOST THEIR BITE**
St. Louis Post Dispatch (SL) - Friday, January 9, 1998
By: Bloomberg News
Edition: FIVE STAR LIFT Section: BUSINESS Page: C5
Word Count: 1,278

MEMO:
YOUR MONEY

TEXT:
Investing in the " **dogs** of the **Dow** ," a strategy billed as a simple way to beat the market, lived up to its name last year: It was a dog.

The **Dow** **dogs** - the 10 highest-yielding stocks in the Dow Jones Industrial Average - lagged both the Dow and the Standard & Poor's 500 Index in 1997. After accounting for taxes and trading expenses, the **Dow** **dogs** trailed the 30-stock Dow average for the past four years.

The idea has lost its effectiveness," said Richard Eakle, an investment adviser in Fair Haven, New Jersey, who has studied the **Dow** **dogs** .

Dow dog defenders say their strategy has temporarily lost its potency, and note that it reaped annual returns of more than 20 percent over the past five years.

While that's a respectable record, the Dow average itself returned 22 percent over that period. The dogs returned about 20 percent last year, below the Dow average's 25 percent and the S&P 500's 33 percent.

Eakle and others say the strategy is outdated. After years of soaring stock prices, dividend yields are less than half of what they were just seven years ago - providing less of a bounce for the lagging **Dow** **dogs** . Moreover, like the "January Effect," in which small capitalization stocks get a January boost - phenomenon absent in recent years - a trading strategy can be undermined by widespread use.

"When you think you've discovered something, the market changes the key to the lock," Eakle said.

Sure thing?

Miami Beach money manager Michael O'Higgins is credited with discovering the pattern of the **Dow** **dogs** in his 1991 book, "Beating the Dow." The idea is to buy the 10 highest-yielding Dow stocks and hold them for a year. At the beginning of each year, stocks no longer among the 10 highest yielding are sold and replaced with the **Dow** 's new **dogs** . (Yield is calculated by dividing the price by the dividend.) The stocks tend to be out of favor and beaten down; hence the **Dow** **dogs** moniker.

Had the 7-year-old strategy been applied in 1951, an investment of $10,000 in the dogs would have been worth $6.6 million at the end of 1996, compared with $1.7 million if the money had been invested in the S&P, according to James O'Shaughnessy, a Greenwich, Connecticut, money manager who helped popularize the strategy. (The figure doesn't include taxes and trading costs.)

"It's a one-two punch," O'Shaughnessy said. "You get a higher dividend yield than the rest of the Dow, and you get stocks that may bounce. The Dow is made up of No. 1 players, the bluest of the blue chips. And the theory is that well-seasoned blue chips will be able to come back."

Few make the case that the theory isn't valid. For example, Dow dog AT&T Corp. returned 53 percent in 1997, after three years in which the stock was

virtually flat amid increasing competition in its long distance business.

13 Yet all told, the **Dow dogs** gained 19.6 percent last year, according to Merrill Lynch & Co., which markets a unit investment trust based on the strategy. The Dow returned almost 25 percent.

14 The Merrill unit trusts returned 26.24 percent annually in the past three years, below the S&P 500's 31 percent return.

15 "If the market is up 25 percent and our clients get 24 percent, I don't think our clients are too unhappy," said Stan Craig, director of sales and marketing for Merrill Lynch's defined asset funds. "If the strategy underperforms in the next five or six years, the detractors might have a case."

16 Declining dividends

17 The Merrill trusts have attracted $14 billion since they were introduced in 1991. Also popular is a variation of the **Dow dogs** popularized by the Motley Fool Investment Forum on America Online and the Internet. It involves buying four or five of the lowest-priced stocks among the 10 highest-yielding Dow companies.

18 Helping to undermine the **Dow dogs** : Dividends have plummeted as the bull market progressed. Corporate managers, stressing growth ahead of income, are more likely to spend cash generated by their businesses on expanding, or **buying back** stock.

19 The Dow's dividend yield is 1.79 percent today, just above its all-time low of 1.58 percent, set in August. The yield was almost 4.3 percent in 1990.

20 Moreover, the Dow itself has been transformed over more than a century. Dow Jones & Co., guardian of the Dow, gradually replaced high-yielding industrial concerns with companies such as computer maker Hewlett-Packard Co. and retailer Wal-Mart Stores Inc.

"It has changed dramatically, into a growth-oriented index," Eakle said.

The **Dow dogs** strategy is mechanical. Investors don't need to analyze balance sheets or income statements. That's part of the appeal. The problem is that following the theory may mean throwing good money after bad prospects.

Analysts point to Dow dog Eastman Kodak Co., which lost a quarter of its stock market value in 1997. Last month, the photo giant said it will cut 20 percent of its staff and take a $1.5 billion charge.

"I'd be reluctant to buy some of these companies, such as Kodak, because their earnings are falling apart," said Peter Canelo, U.S. investment strategist at Morgan Stanley, Dean Witter, Discover & Co.

Eakle said a safer bet is Philip Morris Cos., the tobacco and consumer products giant. Its earnings grew 18 percent in the last year, but many investors are concerned it will be hampered by litigation and regulation, and Congress may not approve the tobacco industry's settlement with its legal foes.

"I think the stock is cheap, based on its cash flow and earnings power," Eakle said. "There's still validity in the **Dow dogs** , but you have to be flexible."

Sell last year's winners

Strictly adhering to the Dow dog strategy requires an investor automatically sell the year's big winners. Yet a thriving company may go on to deliver outsized results for years to come. Moreover, annual buying and selling racks up capital gains taxes and trading costs, undermining

returns.

Fans say the **Dow dogs** will have their day. "It's not what you make on the upside, it's what you lose on the downside," said Neil Hennessy, who oversees the Hennessy Balanced Fund, which invests in **Dow dogs** and Treasury bills.

Beaten-down, higher-yielding **Dow dogs** fell just 4 percent in 1973, the beginning of the most recent bear market, compared with a 13 percent decline by the **Dow**. In 1974, the **dogs** dropped 2 percent, while the Dow tum bled 23 percent.

While it may be a defensive strategy for some, buying the **Dow dogs** is now deemed too speculative by O'Higgins, the concept's pioneer. After the 15-year bull market, O'Higgins regards even the beaten-down dogs as too expensive. He's been buying zero-coupon 30-year Treasury bonds, which don't pay interest but are sold at a deep discount to face value.

"Just as this stock mania has fed on itself, the reverse will be true," O'Higgins said. "Over the long term, stocks will do well, but in the near term I think they're very risky."
CAPTION:
CHART, DRAWING

(1) Graphic Line Chart By The Post-Dispatch - How the dogs stopped barking?
Returns represent price changes plus dividends reinvested at year's end. They don't reflect taxes or trading costs.
Line chart covers 1985 through 1997.
The 1998 **dogs** of the **Dow**
(2) Graphic Logo - Phillip Morris Cos.
(3) Graphic Logo - General Motors Corp.
(4) Graphic Logo - J.P. Morgan & Co.
(5) Graphic Logo - Chevron Corp.
(6) Graphic Logo - Eastman Kodak Co.
(7) Graphic Logo - Exxon Corp.
(8) Graphic Logo - 3M - Minnesota Mining & Manufacturing Co.
(9) Graphic Logo - International Paper Co.
(10) Graphic Logo - AT&T Corp.
(11) Graphic Logo - DuPont Corp.<

12672US01

LMJ

REL

UNITED STATES PATENT AND TRADEMARK OFFICE

UNITED STATES DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Address: COMMISSIONER FOR PATENTS
P.O. Box 1450
Alexandria, Virginia 22313-1450
www.uspto.gov

APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
09/639,478	08/15/2000	Robert Franklin Carey	12672US01	9992

7590 06/10/2004

Ronald I arson Esq
500 W Madison Street 34th Floor
Chicago, IL 60661-2511

RECEIVED
JUN 15 2004
McANDREWS, HELD & MALLOY

EXAMINER	
ROSEN, NICHOLAS D	
ART UNIT	PAPER NUMBER
3625	

DATE MAILED: 06/10/2004

Please find below and/or attached an Office communication concerning this application or proceeding.

RESPONSE DUE:
Aug 10, 2004
Amendment

RESPONSE DUE:
Sept 10, 2004
Not of Appeal

Office Action Summary	Application No.	Applicant(s)
	09/639,478	CAREY, ROBERT FRANKLIN
	Examiner	Art Unit
	Nicholas D. Rosen	3625

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If the period for reply specified above is less than thirty (30) days, a reply within the statutory minimum of thirty (30) days will be considered timely.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

1)☒ Responsive to communication(s) filed on *01 April 2004*.

2a)☒ This action is **FINAL**. 2b)☐ This action is non-final.

3)☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

4)☒ Claim(s) *1,2,4-16 and 18-21* is/are pending in the application.

4a) Of the above claim(s) _____ is/are withdrawn from consideration.

5)☐ Claim(s) _____ is/are allowed.

6)☒ Claim(s) *1,2,4-16 and 18-21* is/are rejected.

7)☐ Claim(s) _____ is/are objected to.

8)☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

9)☐ The specification is objected to by the Examiner.

10)☒ The drawing(s) filed on *15 August 2000* is/are: a)☒ accepted or b)☐ objected to by the Examiner.

Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).

Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).

11)☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

12)☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).

a)☐ All b)☐ Some * c)☐ None of:

1.☐ Certified copies of the priority documents have been received.

2.☐ Certified copies of the priority documents have been received in Application No. _____.

3.☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

1)☐ Notice of References Cited (PTO-892)

2)☐ Notice of Draftsperson's Patent Drawing Review (PTO-948)

3)☐ Information Disclosure Statement(s) (PTO-1449 or PTO/SB/08) Paper No(s)/Mail Date _____.

4)☐ Interview Summary (PTO-413) Paper No(s)/Mail Date. _____ .

5)☐ Notice of Informal Patent Application (PTO-152)

6)☐ Other: _____.

DETAILED ACTION

Claims 1-2, 4-16, and 18-21 have been examined.

A request for continued examination under 37 CFR 1.114, including the fee set forth in 37 CFR 1.17(e), was filed in this application after final rejection. Since this application is eligible for continued examination under 37 CFR 1.114, and the fee set forth in 37 CFR 1.17(e) has been timely paid, the finality of the previous Office action has been withdrawn pursuant to 37 CFR 1.114. Applicant's submission filed on April 1, 2004 has been entered.

Claim Objections

Claim 21 is objected to because of the following informalities: Claim 21 recites "The apparatus of claim 1," which is improper, since claim 1 is a method claim. For examination purposes, claim 21 will therefore be treated as depending from claim 15, an apparatus claim parallel to claim 1. Claim 21 is further objected to because it adds no new limitations to claim 15 (or whatever claim it is intended to depend from), and furthermore because it lacks a period at the end. Appropriate correction is required.

Claim Rejections - 35 USC § 103

The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

> (a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

Claims 1-2 and 4-7 are rejected under 35 U.S.C. 103(a) as being unpatentable over Fried (U.S. Patent 6,035,286) in view of the article, "Dow Dogs Will Have Their Day, Fans Say Critics Call Strategy Overused, Outdated Dogs of 1997 Lost Their Bite," hereinafter "Dow Dogs." As per claim 1, Fried discloses a method for selecting securities from a group of available securities for an investment portfolio, the method comprising: collecting the dividend yields and buyback ratios (column 2, lines 8-22; column 4, lines 17-25); and ranking at least some of said available securities according to predetermined criteria comprising a predetermined relationship to said collected buyback ratios to form a group of ranked securities (column 4, lines 35-57). Fried does not expressly disclose ranking the securities according to the magnitude of the sum of collected dividend yields and collected buyback ratios, but "Dow Dogs" teaches ranking securities by dividend yield (second paragraph, beginning "The Dow dogs"; ninth through eleventh paragraphs, beginning "Miami Beach money manager"). Also, "Dow Dogs" teaches that buying back stock has become a common substitute for paying dividends (eighteenth paragraph, beginning "Helping to undermine"). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to have the predetermined criteria comprise a predetermined relationship between dividend yields and buyback ratios, the predetermined relationship comprising the magnitude of the sum of collected dividend yields and collected buyback ratios, for the obvious advantage of having the predetermined criteria reflect the ratios of paid-out earnings to stock prices of the corporations in question.

As per claim 2, Fried discloses that said group of available securities comprises the Dow Jones Industrial Average (column 3, lines 31-40), which is well known to be made up of 30 stocks (see "Dow Dogs," second paragraph).

As per claim 4, Fried does not disclose that said predetermined criteria consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios (the magnitude of the sum of collected dividend yields and collected buyback ratios), but does disclose that the predetermined criteria can consist of only the buyback ratio (column 4, lines 5-14), or of only a relationship involving the buyback ratio and price/earnings ratio (column 4, lines 35-37 and 44-50); "Dow Dogs" teaches using the dividend yield as sole criterion (second and ninth paragraphs). Neither Fried nor "Dow Dogs" teaches any requirement that the predetermined criteria must comprise something else. Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention for the predetermined criteria to consist only of said predetermined relationship between said collected dividend yields and said collected buyback ratios (the magnitude of the sum of collected dividend yields and collected buyback ratios), for the obvious advantages of having the predetermined criteria reflect the ratios of paid-out earnings to stock prices of the corporations in question, and avoiding unneeded complications.

As per claim 5, "Dow Dogs" teaches that selecting comprises selecting a predetermined number of said ranked securities (second and ninth paragraphs). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to select a predetermined number of ranked securities, for

the obvious advantage of striking a balance between the higher risk of investing in few securities and the difficulty of outperforming the market when investing in many securities.

As per claim 6, "Dow Dogs" teaches that said predetermined number is 10 or less (second and ninth paragraphs). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention for the predetermined number to be 10 or less, for the obvious advantage of striking a balance between the higher risk of investing in few securities and the difficulty of outperforming the market when investing in many securities.

As per claim 7, "Dow Dogs" teaches purchasing at least some of said group of selected securities to form a group of purchased securities (second and ninth paragraphs). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to purchase at least some of said group of selected securities to form a group of purchased securities, for the obvious advantage of profiting from an investment in securities judged likely to outperform the market average.

Claim 8 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried and "Dow Dogs" as applied to claim 7 above, and further in view of Liscio ("Splitting Shares: Using the Americus Trusts to Boost Blue-Chip Returns" [Abstract]) and Roush ("FoM Joins New Investment Trust"). Fried does not disclose creating a unit investment trust comprising said purchased securities, but unit investment trusts are well known, as taught by Liscio and Roush. Hence, it would have been obvious to one of ordinary skill

in the art of finance at the time of applicant's invention to create a unit investment trust comprising said purchased securities, for the obvious advantage of saving on commissions as compared to each investor attempting to buy a basket of securities for himself, and for the stated advantages, as compared to mutual funds, of lower administrative costs and fees (Roush) and allowing exchanges without tax consequences (Liscio).

Claim 9 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried, "Dow Dogs," Liscio, and Roush as applied to claim 8 above, and further in view of Brown ("Tax Changes May Dog 'Beating the Dow" Strategy"). Fried does not disclose that the percentages of said purchased securities are approximately equal, but Brown teaches that the percentages of purchased securities in a "Dogs of the Dow" investment strategy are approximately equal. Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention for the percentages of purchased securities to be approximately equal, for the obvious advantage of avoiding the risk of investing too heavily in any one security.

Claim 10 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried, "Dow Dogs," Liscio, and Roush as applied to claim 8 above, and further in view of Liberman ("Fund Group Unveils Index-Linked Unit Investment Trusts That Use a Dogs-of-the-Dow Strategy"). Fried does not disclose that said unit investment trust has a life of 13 months or more, but Liberman teaches a unit investment trust that has a life of 13 months or more (final paragraph). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention for the unit

investment trust to have a life of 13 months or more, for the stated advantage of possible favorable capital gains [tax] treatment.

Claim 11 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried and "Dow Dogs" as applied to claim 7 above, and further in view of official notice. Fried does not disclose creating a pooled investment vehicle comprising said purchased securities, but official notice is taken that pooled investment vehicles (e.g., mutual funds and unit investment trusts) are well known. Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to create a pooled investment vehicle comprising said purchased securities, for the obvious advantage of saving on commissions as compared to each investor attempting to buy a basket of securities for himself.

Claim 12 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried and "Dow Dogs" as applied to claim 7 above, and further in view of the article "Van Kampen Sells 'Dow Dog' Annuity," hereinafter "Van Kampen." Fried does not disclose creating a variable annuity comprising said purchased securities, but "Van Kampen" teaches this (see especially first paragraph). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to create a variable annuity comprising said purchased securities, for the obvious advantage of providing an investor with an income for the remainder of his life.

Claim 13 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried and "Dow Dogs" as applied to claim 7 above, and further in view of official notice. Fried does not expressly disclose creating an investment account comprising said purchased

securities, but official notice is taken that it is well known to create investment accounts comprising securities. Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to create an investment account comprising said purchased securities, for the obvious advantage of enabling investors to conveniently invest in securities believed to be likely to outperform the market average.

Claim 14 is rejected under 35 U.S.C. 103(a) as being unpatentable over Fried and "Dow Dogs" as applied to claim 1 above, and further in view of official notice. Fried does not expressly disclose a computer-readable medium bearing a computer program containing instruction steps such that upon installation of said computer program in a general purpose computer, the computer is capable of performing the method of claim 1. However, official notice is taken that it is well known to use computer-readable media (e.g., floppy disks, optical disks, etc.) bearing computer programs containing instruction steps such that upon installation of an appropriate computer program in a general purpose computer (such as is disclosed by Fried, column 2, line 60, through column 3, line 6), the computer becomes capable of performing the instruction steps. Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to use a computer-readable medium bearing a computer program containing instruction steps such that upon installation of said computer program in a general purpose computer, the computer was capable of performing the method of claim 1, for the obvious advantage of enabling a general-purpose computer such as Fried discloses to perform a method such as that disclosed by Fried.

Claims 15-16 and 17-21 are rejected under 35 U.S.C. 103(a) as being unpatentable over Fried (U.S. Patent 6,035,286) in view of article, "Dow Dogs Will Have Their Day, Fans Say Critics Call Strategy Overused, Outdated Dogs of 1997 Lost Their Bite," hereinafter "Dow Dogs." As per claim 15 (and also claim 21, which adds no new limitation to claim 15, or whichever claim claim 21 should be considered to depend from), Fried discloses apparatus for selecting securities from a group of available securities for an investment portfolio, the apparatus comprising: a memory storing the dividend yields an buyback ratios of said group of available securities (column 2, lines 8-22; column 3, lines 7-23; column 4, lines 17-25); a processor programmed to rank at least some of said available securities according to predetermined criteria comprising a predetermined relationship to said collected buyback ratios to form a group of ranked securities (column 2, line 60, through column 3, line 6; column 4, lines 35-57); and an output unit indicating in human readable form at least some of said ranked securities (column 4, lines 44-56). Fried does not expressly disclose ranking the securities according to collected dividend yields as well as collected buy back ratios, but "Dow Dogs" teaches ranking securities by dividend yield (second paragraph, beginning "The Dow dogs"; ninth through eleventh paragraphs, beginning "Miami Beach money manager"). Also, "Dow Dogs" teaches that buying back stock has become a common substitute for paying dividends (eighteenth paragraph, beginning "Helping to undermine"). Hence, it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention to have the predetermined criteria comprise a

predetermined relationship between dividend yields and buyback ratios, the predetermined relationship comprising the magnitude of the sum of collected dividend yields and collected buyback ratios, for the obvious advantage of having the predetermined criteria reflect the ratios of paid-out earnings to stock prices of the corporations in question.

As per claims 16, 18, 19, and 20, claims 16, 18, 19, and 20 are closely parallel to claims 2, 4, 5, and 6, respectively, and rejected on essentially the same grounds.

Response to Arguments

Applicant's arguments filed April 1, 2004 have been fully considered but they are not persuasive. Applicant argues that neither Fried nor "Dow Dogs" has any suggestion or motivation for using a <u>sum</u> of dividend yield and buyback ratios as claimed. Examiner disagrees; it would be accurate to say that neither Fried nor "Dow Dogs" actually discloses doing so, but a stretch to say that nothing in the cited references provides any incentive or motive to use a sum. Fried discloses using buyback ratio to select a subset of stocks, and then using price/earnings ratio (or other criteria) to choose stocks for a portfolio, while "Dow Dogs" not only teaches using dividend yield to select a set of stocks for a portfolio, but further teaches that corporate managers these days are more likely to spend cash on buying back stock than on paying substantial dividends. This is held to qualify as motivation to take buyback ratio as well as dividend yield into account, and the sum of buyback ratio and dividend yield is the measure of paid-out earnings. Fried, of course, also teaches that buying stocks with high buyback

ratios is likely to be advantageous, as such stocks are reported to outperform the market (column 1).

While it would certainly be possible to use some other predetermined relationship between dividend yield and buyback ratio, the sum of the two not only has the charm of simplicity, but is a direct measure of paid-out earnings.

In response to applicant's argument that there is no suggestion to combine the references, the examiner recognizes that obviousness can only be established by combining or modifying the teachings of the prior art to produce the claimed invention where there is some teaching, suggestion, or motivation to do so found either in the references themselves or in the knowledge generally available to one of ordinary skill in the art. See *In re Fine*, 837 F.2d 1071, 5 USPQ2d 1596 (Fed. Cir. 1988), and *In re Jones*, 958 F.2d 347, 21 USPQ2d 1941 (Fed. Cir. 1992). In this case, the teachings of the prior art references provide suggestion and motivation, as set forth above.

Regarding claim 4, Applicant argues that Fried (in column 4, lines 6-14) does not teach or suggest that criteria can consist of only the buyback ratio, saying that Fried teaches selecting stocks by the combination of buyback ratio and either price/sales ratio or price/earnings ratio. It is not entirely clear to Examiner why this should be considered to establish that Fried teaches away from using as criteria only the relationship between collected dividend yields *and* collected buyback ratios. In any event, Fried discloses first selecting a subset of stocks on the basis of buyback ratio alone (in column 4, lines 6-14), and then, as disclosed later in column 4, applying price/sales ratio or price/earnings ratio (later in column 4). The limitation of claim 4 is that "said

predetermined criteria consist only of said predetermined relationship between collected dividend yields and collected buyback ratios. While it would no doubt be possible to add other, more or less motivated and relevant predetermined criteria, ranging from the CEOs' salaries to the phase of the moon, nothing in Fried requires such any such criteria. Therefore, it is held to be obvious not to include any other relationships, etc., in the predetermined criteria.

Regarding the remaining claims, Applicant argues for them to be allowed only because they are dependent on, or parallel to, claim 1.

Conclusion

All claims are drawn to the same invention claimed in the application prior to the entry of the submission under 37 CFR 1.114 and could have been finally rejected on the grounds and art of record in the next Office action if they had been entered in the application prior to entry under 37 CFR 1.114. Accordingly, **THIS ACTION IS MADE FINAL** even though it is a first action after the filing of a request for continued examination and the submission under 37 CFR 1.114. See MPEP § 706.07(b). Applicant is reminded of the extension of time policy as set forth in 37 CFR 1.136(a).

A shortened statutory period for reply to this final action is set to expire THREE MONTHS from the mailing date of this action. In the event a first reply is filed within TWO MONTHS of the mailing date of this final action and the advisory action is not mailed until after the end of the THREE-MONTH shortened statutory period, then the shortened statutory period will expire on the date the advisory action is mailed, and any

extension fee pursuant to 37 CFR 1.136(a) will be calculated from the mailing date of the advisory action. In no event, however, will the statutory period for reply expire later than SIX MONTHS from the mailing date of this final action.

Any inquiry concerning this communication or earlier communications from the examiner should be directed to Nicholas D. Rosen, whose telephone number is 703-305-0753. The examiner can normally be reached on 8:30 AM - 5:00 PM, M-F.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Wynn Coggins, can be reached on 703-308-1344. (Wynn Coggins is currently on assignment elsewhere in the Patent Office; the examiner's acting supervisor, Jeffrey Smith, can be reached at 703-308-3588.) The fax phone number for the organization where this application or proceeding is assigned is 703-872-9306. Non-official/draft communications can be faxed to the examiner at 703-746-5574.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see http://pair-direct.uspto.gov. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free).

Nicholas D. Rosen

NICHOLAS D. ROSEN
PRIMARY EXAMINER

June 5, 2004

Dividend Yield

What does it Mean?

An indication of the income generated by a share of stock. Dividend yield is calculated as:

$$= \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}}$$

Investopedia Says...

The dividend yield plus return on capital gains equals total return.

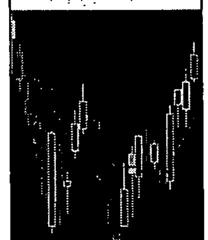
Related Links

How and Why Do Companies Pay Dividends? - Explore arguments for and against company dividend policy, and learn how companies determine how much to pay out.

Back In Vogue: Dividends - Aside from option strategies, dividends are the only way to profit from ownership of stock without selling your stake in the company.

Related Terms

- Cum Dividend
- Current Yield
- Declaration Date
- Dividend
- Ex-Date
- Ex-Dividend
- Holder of Record
- Return on Capital Gains



DIALOG(R)File 634:San Jose Mercury

09246029

TAX CHANGES MAY DOG 'BEATING THE DOW' STRATEGY

San Jose Mercury News (SJ) - Wednesday, September 3, 1997
By: JEFF BROWN, Knight-Ridder News Service
Edition: Morning Final Section: Getting Ahead Page: 4G
Word Count: 1,200

MEMO:
Your Money

TEXT:
For years, the investment strategy known as ''Beating the Dow'' or ''Dogs of the Dow'' has had a cult following. Believers have been well-rewarded over long periods, with returns that soundly beat the Dow Jones industrial average as a whole.

But new tax rules enacted this summer raise questions about whether the Dogs strategy will be as attractive in the future, and securities firms that make it easy to invest in the Dogs stocks through **unit investment trusts** are scrambling to revise their products.

The strategy, first described in the 1991 book ''Beating the Dow'' by Michael O'Higgins and John Downes, calls for investing **equal** sums in the 10 highest dividend yielders among the 30 **stocks** of the Dow average. Dividend yield is a **percentage** figured by dividing a **stock** 's annual dividend payments by its **share** price.

In theory, the Dogs **stocks** have high yields because, while dividend payments stay constant, their **share** prices are temporarily depressed. So the investor benefits from the high dividend yield and hopes to win again when the **share** prices rebound. After 12 months, the investor sells the **stocks** that are no longer among the 10 highest yielders and, again, puts **equal** sums into each **stock** on the new list.

Had such a strategy been started in 1972, it would have produced average annual returns, before taxes and fees, of about 18 percent through 1996, compared to about 13 percent for the Dow as a whole. From Dec. 31, 1996, through July 31, it returned 21.8 percent, compared to 28.7 percent for the Dow. (Proponents say the Dogs strategy does best when the Dow does poorly - not the case for the last few years.)

Dividend payments are taxed as income, while profits from share-price increases are taxed as capital gains. For many middle-income investors, this made little difference in the past because they paid 28 percent with both kinds of tax.

But the new tax law lowers the top capital gains rate to 20 percent, while leaving income-tax levels unchanged - 28 percent for middle-income taxpayers, but as much as 39.6 percent for the wealthy. So for investors in mid- to high-income tax brackets, there now is a significant advantage to being taxed at capital gains levels rather than higher income tax rates.

The new law also requires that investments be held for 18 months - up from 12 - to qualify for the 20 percent long-term gains-tax rate. Capital gains that are realized when an investor sells Dogs stocks held for 12 months, as the strategy requires, will be taxed at a new ''midterm'' gains rates of 28 percent. That's for investments held 12 to 18 months.

On the surface, these changes would seem to make the strategy less appealing compared to other strategies in which all gains will be taxed at the 20 percent long-term gains rates, such as non-dividend-paying stocks held at least 18 months.

But Beating the Dow believers say the strategy still should be attractive. And, of course, you can avoid the whole tax dilemma by

investing through an IRA, deferring all tax until retirement.

John Downes, co-author of the 1991 book, said in August that high dividend yield, while it can furnish a sizable chunk of the strategy's profits, has mainly served to point the way to stocks that are trading at bargain prices. That should still be true, he says.

Moreover, in recent years dividend yields on Dow stocks have fallen to record lows of about 2 percent, so even an investor paying 36 or 39.6 percent income tax on dividend distributions isn't paying very much. Most recent gains have come from price increases that can be taxed at low capital gains rates if the stocks are held long enough.

Downes also notes that historically about 60 percent of the stocks on the Dogs list show up again on the new list the next year. So tax on price gains for those stocks may be postponed long enough to qualify for the 20 percent long-term gains rate, even with an 18-month holding period.

Downes, thus, sees no advantages in lengthening the Dogs holding period to 18 months. A study of how the strategy would have performed over 18-month periods showed that the 12-month period worked better, he said.

Problems of UITs

The tax changes do create some problems for the **unit investment trusts** that use the Dogs strategy. UITs buy large volumes of Dogs stocks and sell shares in the package to investors. The stocks are held for a year, then the trust is liquidated and the proceeds, less a 2.75 percent management fee, are paid to shareholders.

The fee covers all the trust's costs, such as commissions on buying and selling shares. For investors putting less than $10,000 into the Dogs strategy, it's generally cheaper to pay the fee than individual commissions on the 10 stocks. Also, the trusts cut the fees to 1.75 percent for shareholders who reinvest their proceeds in new trusts after the first year.

For many years, one of the drawbacks to the trusts was that all gains were realized after 12 months, since all the stocks held in the trust were sold. So investors had to pay tax even on gains from the 60 percent of the stocks that stayed on the list.

One of the trusts is run by a syndicate of five brokerage firms, including Merrill Lynch. Stan Craig, Merrill's sales director for defined-asset funds, said the Internal Revenue Service has issued a ruling that should allow investors who reinvest to avoid gains tax on stocks reappearing in the next trust. That issue should be clarified by early 1998, he said. (For a prospectus on that trust, the Select Ten Portfolio, call 800-562-2926. The group offers a new portfolio about every six weeks. Minimum investment is $250.)

Prudential Securities (212-778-6164) has a similar trust, the Dow Dividend Strategy, with a $1,000 minimum, and it already has received IRS approval to postpone gains tax on stocks held over.

Nike Securities of Lisle, Ill. (800-621-1675, http://www.nikesec.com) offers the Target 10 Trust, as well as a Target 5 trust that invests in the five lowest-priced of the 10 Dogs stocks - the ''Flying Five'' strategy. Investors who put at least $25,000 into these trusts can opt to receive the actual stocks rather than cash when the trusts terminate, postponing tax as long as the shares are held. Nike does not have the reinvestment exemption Prudential does, but it is the only firm to offer trusts that use 19-month holding periods to benefit from the new, lower capital gains rate. Minimum investment is $1,000.

Learning new tricks

It will be some time before we know how the Dogs strategy will perform under the new tax law, though the fundamental principles that have brought

good returns in the past haven't changed.

One final warning, though: Don't be dazzled by the dramatic performance charts in some of the trusts' sales material. They show results before annual fees and taxes have taken their bite, and over long periods this can chew deeply into returns.